» Finance as Instrument of Control: The End Game «

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1 July 2023

Biggest upheaval in our monetary system in 330 years

- “Roughly 90% of all central banks currently pursue a **central bank digital currency project**” (McKinsey)[1]
- Get ready for something new that will change the world.
- What is **so new about CBDCs?**
- We are being told that it’s the “digital” aspect:
  - “24 May 2023 ... The European Central Bank (ECB) has proposed designing a digital version of the Euro, as cash increasingly gives way to electronic payments.”
  - ECB chief Christine Lagarde (2019): central banks need to be “ahead of the curve” concerning digital currencies like stable coins.[2]

1) https://www.mckinsey.com/industries/financial-services/our-insights/central-bank-digital-currencies-an-active-role-for-commercial-banks

Central planners are now keen to introduce "digital currency"

- What is the last payment you made? What means of payment did you use?

  - *Cash*
  - *Direct debit bank card, PIN code*
  - *Direct debit bank card, contactless*
  - *Credit card, PIN or contactless*
  - *ApplePay, linked to bank account*
  - *GooglePay, linked to bank account*
  - *Monzo/Revolut etc. prepaid card*
  - *Code of prepaid gift card*

- **All of them** presently link back to banks and bank accounts
- This **bank money is digital!**
- We have been using **Bank Digital Currency (BDC)** for many decades! It's **not new!**
- What is new about CBDCs? The **"Central"** part

Central planners are now keen to introduce “digital currency”

Our monetary system for the past 300 years:

- People have accounts with banks.
- Cash is obtained from banks.
- Transactions, bank transfers and settlement are done by banks.
- Debit cards, credit cards & electronic payment services (ApplePay, Alipay, etc) via banks
- The central bank only dealt with banks
- Central bank **cash** does **not allow central banks** to monitor & control transactions
- Banks have such power, since so far they have been in charge of **digital currency**

How did Justin Trudeau end the trucker demonstration?

- Their bank accounts were frozen and their ability to buy food, medicines etc. for them and their families was taken away.
- After months of peaceful demonstrations against Covid restrictions, the truckers had to give up.
- Too few used cash!
- The control over their digital money was done with new legislation.

How did Justin Trudeau end the trucker demonstration?

- “The police **froze 206 financial products**, including **bank and corporate accounts**;
- **disclosed the information of 56 entities** associated with vehicles, individuals and companies;
- **shared 253 bitcoin addresses with virtual currency exchangers**;
- and **froze a payment processing account valued at $3.8 million**”, a police spokesman said. **https://abc7chicago.com/canada-protests-truckers-convoy-ottawa-police/11584530/**

How did Justin Trudeau end the trucker demonstration?

- Their bank accounts were frozen and their ability to buy food, medicines etc. for them and their families was taken away.
- This was done with new legislation.
- **No such financial controls had been used previously to stop criminals.**
- Since 2020, the idea of **digital IDs**, such as “vaccination passports”, and the link to control and coercion have been advanced
- Digital currency allows a Chinese-style **social credit score system**
- If there’s only electronic money and you criticise the government on social media, your access to your money may be taken away, and hence your ability to purchase even essentials

Biggest upheaval in our monetary system in 330 years

- So the digital aspect of CBDC is not new
- What is new is that the central banks are stepping out of the shadows to rip up the centuries-old Concordat between banks an the central bank
- By stepping into the retail banking arena and wanting to offer digital currency, they are competing directly against the banks
- A retail CBDC is simply a current account at the central bank, even if it takes the form of a phone-based app payment system or a microchip implant.
- So the bank regulator – the central banks – is about to compete directly against the banks.
- This is like the referee in a soccer/football game deciding to join the game and running for the ball and scoring goals – while still using his power to give yellow and red cards to the other players. Who will win this game?
- Why are central banks doing this? What are their motives?

Biggest upheaval in our monetary system in 330 years

- Listen to the fatcats at the BIS, the central bank of the central banks:
- Agustin Carstens, Managing Director of the Bank for International Settlements: Letting the cat out of the bag
- https://www.youtube.com/watch?v=rpNnTuK5JJU

Bank for International Settlements head Agustin Carstens about CBDC and control

Biggest upheaval in our monetary system in 330 years

Unified ledger could usher in 'profound' economic change – BIS

Bank for International Settlements, Basel

Photo: BIS

20 June 2023

The Bank for International Settlements laid out a vision today (June 20) of a "unified ledger" to sit at the heart of the monetary system, offering the potential for "profound" change to the economy.

The idea would unite public and private money on a single ledger, overseen by the central bank. Tokenising bank deposits and central bank money, as well as other assets, could allow "seamless integration" and programmability on one platform.

Why are central planners not rolling out CBDCs faster?

McKinsey identified **several obstacles to wide adoption**:

- "A clear or substantiated **market value proposition has yet to be documented**. Some consider CBDC **benefits to be limited** relative to already-established private solutions."[1]
- "**Trust remains a hurdle** for a meaningful share of citizens and system participants, who **question the motives behind CBDCs** (**often suspecting governments of aiming to monitor or restrict financial activities**) or fear cybersecurity risks." [1]
- "Technical challenges are evidenced by **service interruptions** suffered by some existing solutions, as well as the digital divide that exists in **rural areas** and faces certain **small businesses**."

1) https://www.mckinsey.com/industries/financial-services/our-insights/central-bank-digital-currencies-an-active-role-for-commercial-banks

Central bank digital currency is a control tool

- “Bank of England tells ministers to intervene on digital ‘currency programming’: Digital cash could be programmed to ensure it is only spent on essentials, or goods which an employer or Government deems to be sensible."[1]

- “The Bank of England has called on ministers to decide whether a central bank digital currency should be “programmable”, ultimately **giving the issuer control over how it is spent by the recipient**.”[1]

1) Daily Telegraph, Tim Wallace, 21 June 2021

Central bank digital currency is a control tool

- Could there be a social credit scoring system, for instance, in the name of climate change?
- It's **already being done by central banks via the banking system**:
- The BCBS, the international unelected body run by central banks out of the BIS, released "clarifications on climate-related financial risks in December 2022". It punishes banks for lending to borrowers who are categorised as being affected by "climate risk" – which means any activity deemed to contain or produce too much CO2.
- Similarly, a report by the Financial Stability Board, another international body of central bank governors, finance ministry officials and international organisations, recommended that bank regulators enact a "system-wide approach to climate-related risks", which would include "deployment of potential supervisory capital add-ons to address deficiencies in the risk management of **climate-related risks**".
- In November 2022, the ECB announced that it expects banks to meet all supervisory expectations on climate and environmental risks by the end of 2024, including using capital adequacy assessment to **punish banks for lending to the "wrong" economic activities**.

Use of your money conditional on “climate priorities“

https://www.mastercard.com/news/press/2021/april/mastercard-unveils-new-carbon-calculator-tool/

PRESS RELEASE

Mastercard unveils new Carbon Calculator tool for banks globally, as consumer passion for the environment grows

APRIL 12, 2021 | PURCHASE, NY

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Can we trust the central planners to give them yet more power?

McKinsey identified **several obstacles to wide adoption**:

- “**Trust remains a hurdle** for a meaningful share of citizens …who **question the motives behind CBDCs** (**often suspecting governments of aiming to monitor or restrict…**) …”

Consider the official benefits of CBDCs listed by the central banks:

- improve payment systems – *but already doing fine!*
- enhance financial inclusion, for unbanked populations – *force those who use cash to move to digital currency?*
- reduce costs associated with cash and traditional payment methods – *surely a CBDC system, being high-tech, is more costly overall.*
- could promote financial innovation – *we’ve had plenty, usually causing crises*
- reduce transaction costs – *but they can easily impose charges and in fact have already said they want to use CBDCs to impose negative interest rates!*
- support monetary policy implementation – yes, negative interest rates, confiscation and requirement for the central planner to approve your spending. Also proves they do plan to abolish cash (otherwise cannot enforce neg. rates)

Can we trust the central planners to give them yet more power?

Alleged “official” benefits of CBDCs listed by the central banks:

- providing a safe, government-backed alternative to commercial bank deposits – *this discloses the ECB agenda to kill banks*
- 24 May 2023 ... ECB President Christine Lagarde says a digital currency from the central bank will help make Europe independent of outside payment services . ie to fight against the US. Bloomberg: 21 Mar 2023 ... A digital euro has a key role to play in safeguarding European payment autonomy, according to European Central Bank President Christine ...
- this is gaslighting: the EU is a US project that was designed to be anti-democratic and authoritarian. It is run by CIA agents will remain subjugated by the US.
  - Declassified CIA records revealed that Jean Monnet, Schuman, Spaak, Adenauer were CIA agents, working on the plan to create an undemocratic United States of Europe. The CIA funded the “European Movement”.
- enhance financial stability by reducing the risk of bank runs – *this is ironic!*

Can we trust the central planners to give them yet more power?

Diplomacy & Statecraft
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OSS, CIA and European unity: The American committee on United Europe, 1948-60

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The Telegraph

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Euro-federalists financed by US spy chiefs

By Ambrose Evans-Pritchard in Brussels
19 September 2000 • 12:00am

DECLASSIFIED American government documents show that the US intelligence community ran a campaign in the Fifties and Sixties to build momentum for a united Europe. It funded and directed the European federalist movement.

The documents confirm suspicions voiced at the time that America was working aggressively behind the scenes to push Britain into a European state. One memorandum, dated July 26, 1950, gives instructions for a campaign to promote a fully fledged European parliament. It is signed by Gen William J Donovan, head of the American wartime Office of Strategic Services, precursor of the CIA.

The documents were found by Joshua Paul, a researcher at Georgetown University in Washington. They include files released by the US National Archives. Washington's main tool for shaping the European agenda was the American Committee for a United Europe, created in 1948. The chairman was Donovan, ostensibly a private lawyer by then.

The vice-chairman was Allen Dulles, the CIA director in the Fifties. The board included Walter Bedell Smith, the CIA's first director, and a roster of ex-OSS figures and officials who moved in and out of the CIA. The documents show that ACUE financed the European Movement, the most important federalist organisation in the post-war years. In 1958, for example, it provided 53.5 per cent of the movement's funds.

The European Youth Campaign, an arm of the European Movement, was wholly funded and controlled by Washington. The Belgian director, Baron Boel, received monthly payments into a special account. When the head of the European Movement,

- European parties received US cash to include the goal of “ever closer European union” into their programs
- The “European Movement” and the “European Youth Movement” are funded by the CIA
- This explains why democratic countries could come up with the idea that a highly authoritarian and undemocratic structure should receive their sovereign powers
- Re-creation of the Soviet Union with the unelected Commission as the Polit-Bureau

Can we trust the central planners to give them yet more power?

Alleged "official" benefits of CBDCs listed by the central banks:

- providing a safe, government-backed alternative to commercial bank deposits – *this discloses the ECB agenda to kill banks*

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- this is gaslighting: the EU is a US project that was designed to be anti-democratic and authoritarian. It is run by CIA agents will remain subjugated by the US.

  - Declassified CIA records revealed that Jean Monnet, Schuman, Spaak, Adenauer were CIA agents, working on the plan to create an undemocratic United States of Europe. The CIA funded the "European Movement".

- enhance financial stability by reducing the risk of bank runs – *this is ironic!*

Can we trust the central planners to give them yet more power?

The Spectre of Central Bank Risk and its Implications for Investors

Richard A. Werner
Chief Investment Advisor
Profit Research Center Ltd., Tokyo
Sophia University, Tokyo

Hedge Funds World Japan 2002
3 December 2002

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Can we trust the central planners to give them yet more power?

The spectre of central bank risk

- Most investors still ascribe goals to central banks – such as financial and economic stability - that derive from an era when they were de facto part of the government.
- However, over the past decade, the vast majority of the world's central banks has become **legally independent** and de facto **unaccountable** to democratically elected governments.
- Central banks now pursue their own political agendas, which may include the **intentional creation of vast bubbles and downturns**.

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The spectre of central bank risk

- **Central Bank Risk** is the risk of the intentional creation of price, output and currency swings by central banks.
- **Central Bank Risk** has increased significantly over the past decade – it is now at a historically unprecedented level.
- Every investor needs to be aware of it.

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Can we trust the central planners to give them yet more power?

The business cycle was pronounced dead a few years back

- This would have meant a significant reduction in macroeconomic and systemic risks.
- Hedge funds and investors would *not* have to be concerned with such risk and could focus on micro stock-picking, arbitrage etc.

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Can we trust the central planners to give them yet more power?

We know today that the business cycle is not dead

- It is alive and kicking, turning down sharply in the US and Europe.
- Currency volatility has increased over the past 30 years.
- Worldwide the frequency and amplitude of business cycles has increased.
- If anything, standard business cycles are superseded by even larger boom-bust cycles (Japan, Asia, US) – with a decade of boom followed by a decade of bust.

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Have central banks got anything to do with it?

This is What They Say:

> ***"We have nothing to do with it. To the contrary, we are working hard against these developments."***

And What Do They Do?

Time for some fact-checking…

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Can we trust the central planners to give them yet more power?

How do central banks work? What are their policy tools and goals?

The official story:

1. *"Central banks aim at price, economic and currency stability."*
2. *"To do this, they use interest rates as the main monetary policy tool."*
3. ***"Interest rates are the key variable driving prices, exchange rates, growth, stock markets and bond markets."***

- If central banks really aim at the stability of prices, currencies and economic activity, they have done a lousy job.

- Should we trust their story? What is the evidence?

  Let's start with claim 3.

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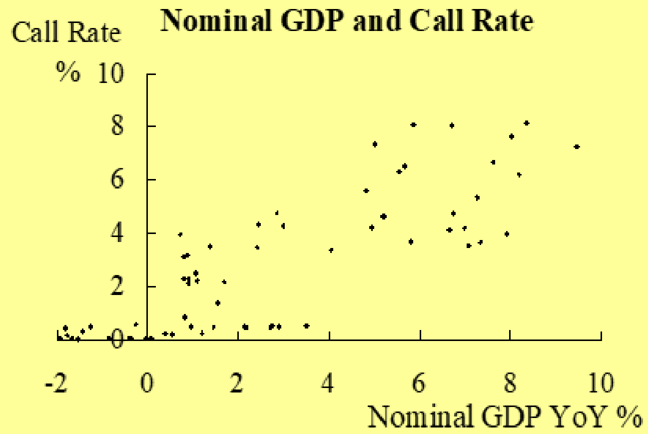
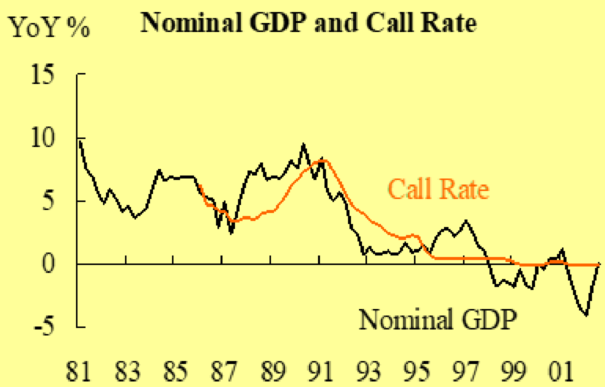
Can we trust the central planners to give them yet more power?

Interest rates cannot explain economic growth – they follow it

- True for long, short, nominal and real rates and in most countries





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Economists of various schools disagree mostly, but agree on 1 thing:

The relationship of **interest rates and economic activity:**

1. Classical (e.g. Ricardo, 1817)
2. Neo-classical (e.g. Marshall, 1890)
3. Keynesian (Keynes, 1936; Hicks, 1937; Tobin, 1969)
4. Monetarist (Brunner and Meltzer, 1971; Friedman, 1970)
5. New classical (Lucas, 1975)
6. 'Neo-Wicksellian' (e.g. Woodford, 2003
7. Post-Keynesian (e.g. Lavoie, 1995)
8. Austrian (e.g. Garrison, 1989)
9. Ecological economists (e.g. Horowitz, 1996; Baum, 2009)

"Lower rates lead to higher growth, higher rates slow growth"

FORD WERNER CAPITAL

Interest rates have been stylized as *the* key macro variable

1. English language academic economics, the media and central bankers themselves declare interest rates as the main monetary policy tool.
2. The claim that *lower rates stimulate economic growth and higher rates slow it* can be called ***"the law and the prophets of equilibrium economics"*****.**
3. This claim has been uttered so often in the past 40 years that one would expect there to be **hundreds of studies showing this** relationship between nominal interest rates and economic activity.
4. **How many empirical studies actually exist** that demonstrate this proclaimed correlation & causation?

There aren‘t *any*.

Except finally two detailed studies:

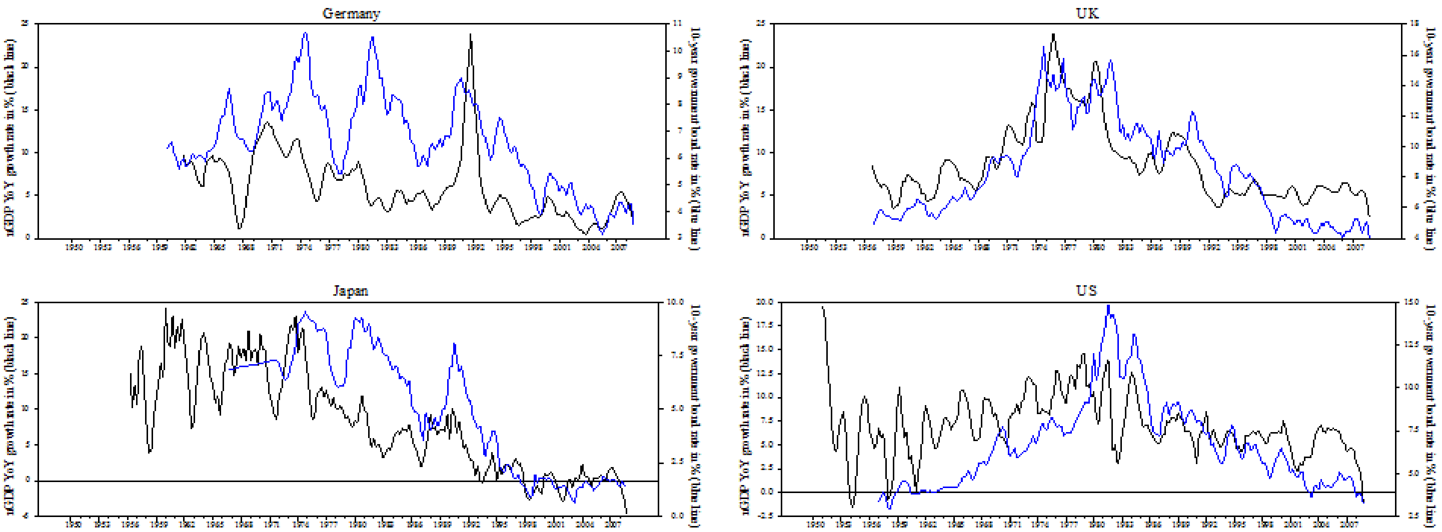
Kank-Soek Lee and Richard A. Werner (2018), Reconsidering monetary policy, *Ecological Economics:*

Half a century of evidence on the correlation & statistical causation between interest rates and economic activity in the US, Japan, Germany and the UK (quarterly data).

Lee, Kang-Soek and Richard A. Werner (2022). Are lower interest rates really associated with higher growth? New empirical evidence on the interest rate thesis from 19 countries. *International Journal of Finance and Economics, 1-16*

The relationship between **long-term interest rates** and economic growth in the UK, US, Germany and Japan (~1958-2008):

Figure 1. Nominal GDP yoy growth rate vs. 10-year government bond rate

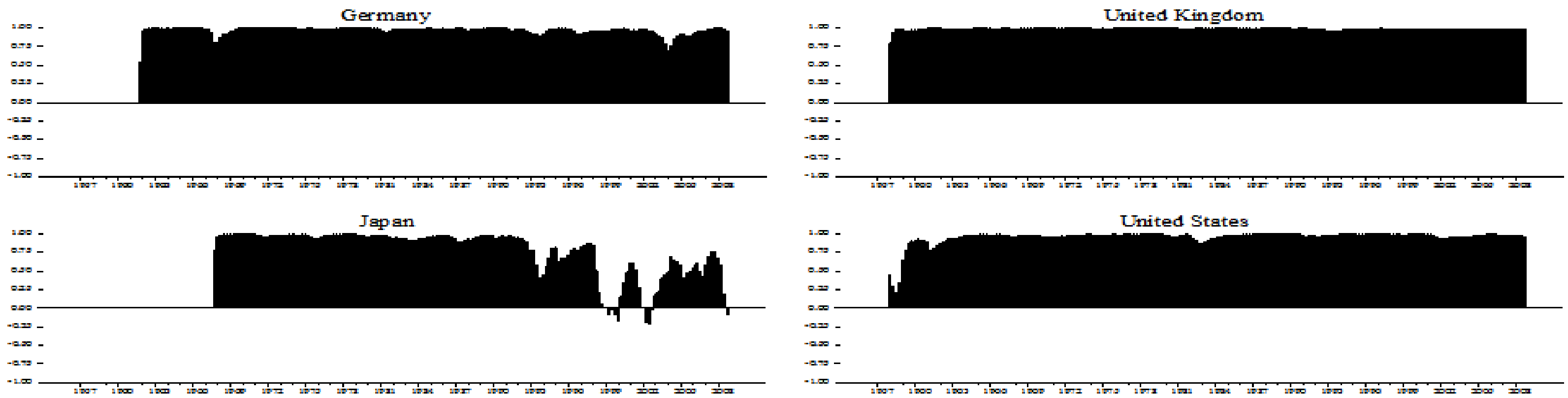


(a) Correlation

Long-term interest rates and economic growth in the UK, US, Germany and Japan: **overwhelmingly positive**

Figure 2. Estimated DCC between nominal GDP yoy growth rate and 10-year government bond rate

Notes: These figures show the series of dynamic conditional correlation between nominal GDP yoy growth rate and 10-year government bond rate resulting from the estimation of the best three-variate DCC-GARCH (1,1) model specification selected for each country examined using the criteria of convergence, estimates performance and the principle of parsimony. The table below reports descriptive statistics of these DCC series. J.-B. statistics confirm the non-normality of the estimated DCC series for all countries considered, which confirms ex post the validity of this conditional, time-varying approach for describing the joint behaviour of correlation between economic growth and long-term interest rate.

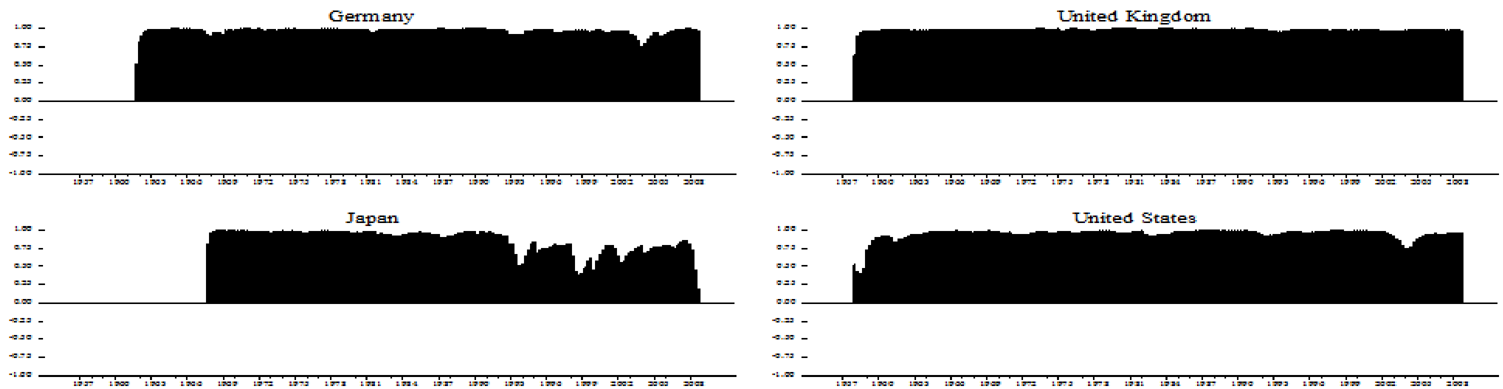


(a) Correlation

Short-term interest rates and economic growth in the UK, US, Germany and Japan (~1958-2008): **consistently positive**

Figure 4. Estimated DCC between nominal GDP yoy growth rate and 3-month interest rate

Notes: These figures show the series of dynamic conditional correlation between nominal GDP yoy growth rate and 3-month interest rate resulting from the estimation of the best three-variate DCC-GARCH (1,1) model specification selected for each country examined using the criteria of convergence, estimates performance and the principle of parsimony. The table below reports descriptive statistics of these DCC series. J.-B. statistics confirm the non-normality of the estimated DCC series for all countries considered, which confirms ex post the validity of this conditional, time-varying approach for describing the joint behaviour of correlation between economic growth and short-term interest rate.



Results

(a) Correlation

Conclusion:

Despite allowing for 2 years of leads and lags, the hypothesis that **interest rates are *inversely* correlated with economic growth is *rejected* in 8 out of 8 cases**.

Instead, we found that **interest rates are *positively* correlated with economic growth in 8 of 8 cases.**

Results

(b) Statistical Causation

Statistical causation (Granger causality) between short-term and long-term interest rates on the one hand, and economic growth in the UK, US, Germany and Japan on the other:

Conclusion:

Causality from rates to growth rejected in 6 out of 8 cases.

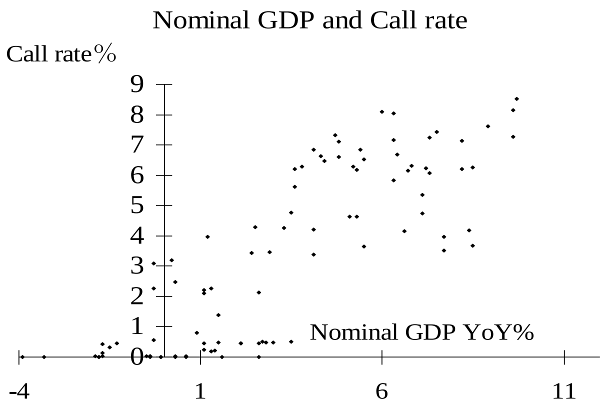
The alternative hypothesis that growth determines interest rates is supported in 8 out of 8 cases.

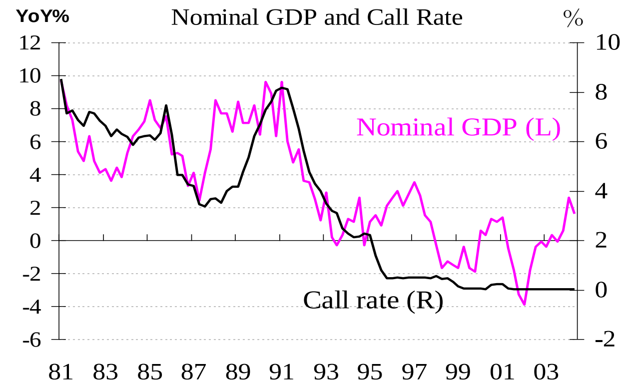
Reality is the opposite of the central planners' story

Correlation

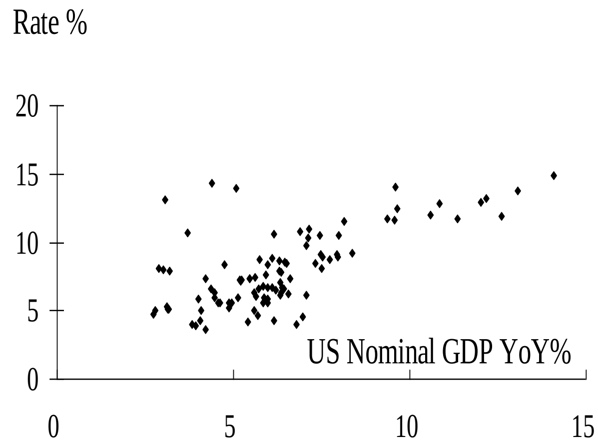
Statistical Causation

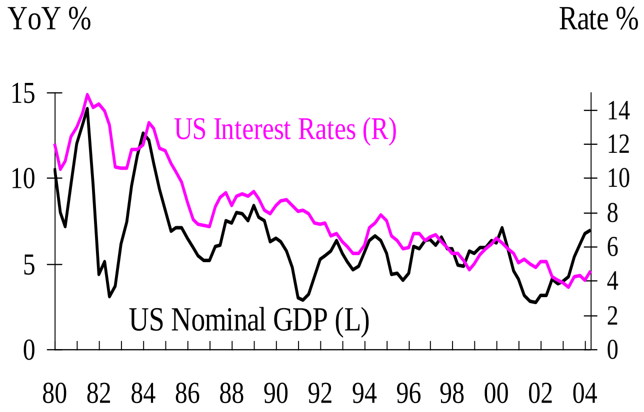
Japan





US





Fact: Rates Follow the Cycle

Consequence: Central banks don't use rates to run the economy

Official Story: High interest leads to low growth;
Low interest leads to high growth

Cognitive Dissonance

Empirical Reality: High growth leads to high interest;
Low growth leads to low interest.

- Interest rates are the result of economic growth.
- So they cannot at the same time be the cause of economic growth.
- The facts contradict the official story of monetary and banking policy.

- Questions: It is not rates, but **bank credit** that determines economic growth
Why do central bankers keep repeating the mantra that they use interest rates as policy tool? It is only a **smoke-screen**

Can we trust the central planners to give them yet more power?

Fact-Check: Is the official story true?

1. ***"Central banks aim at price, economic and currency stability."***
2. ***"To do this, they use interest rates as the main monetary policy tool."***
3. *"~~Interest rates are the key variable driving prices, exchange rates, growth, stock markets and bond markets.~~"*

- ***Conclusion:*** Claim 3 is not supported by evidence.
- ***What about Claim 2?*** Since rates do not drive the economy, it would be strange if central banks relied on them. What's the empirical evidence?

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Central planners have conceded & switched to quantity policies

- Since 2008, many major central banks have adopted my recommendation of 1995 in Japan, namely that interest rates are not a useful monetary policy tool and instead the **quantity of credit creation** should be used: *Quantitative Easing*


日本経済新聞 1995年(平成7年)9月2日(土曜日) (26)

経済教室

景気回復、量的金融緩和から

総購買力を増やせ

4%程度の成長は可能

ジャーディン・フレミング証券東京支店 チーフエコノミスト リチャード・ヴェルナー

実体経済の購買力不足

不良債権問題 信用破壊招く

財政政策の実効性増す

Richard A. Werner,
2 September 1995
'Create a Recovery Through Quantitative Easing',
Nihon Keizai Shinbun (Nikkei), Tokyo

What I said would *not* work:

- reducing interest rates – even to zero
- fiscal stimulation
- expanding bank reserves/high powered money

Central planners have conceded & switched to quantity policies

- But not to create high and sustainable growth without inflation and without crises.
- Instead, they used even quantitative policies to create vast boom-bust cycles, just like we are presently experiencing
- The inflation is ending, the deep recession is coming, thanks to the central planners' boom-bust cycles – more on this shortly

Can we trust the central planners to give them yet more power?

Fact-Check: Is the official story true?

1. ***"Central banks aim at price, economic and currency stability."***
2. ~~*"To do this, they use interest rates as the main monetary policy tool."*~~
3. ~~*"Interest rates are the key variable driving prices, exchange rates, growth, stock markets and bond markets."*~~

Conclusion: Claim 2 is not supported by evidence.

What about Claim 1? Through their control of the quantity of credit, central banks can influence most macro variables. What have they used their powers for?

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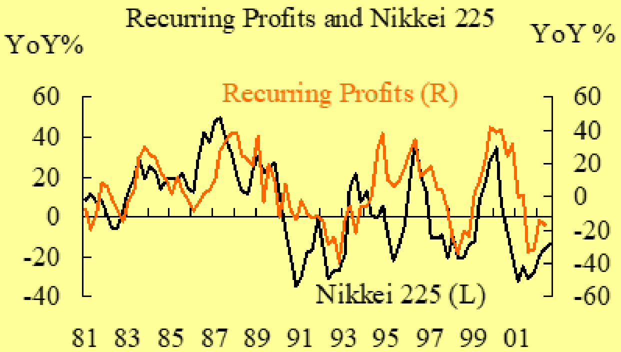
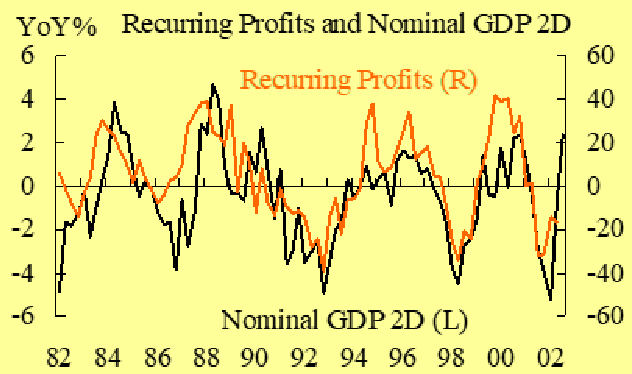
Can we trust the central planners to give them yet more power?

Credit drives stocks, bonds and currencies

- Stocks follow earnings



- Earnings follow GDP



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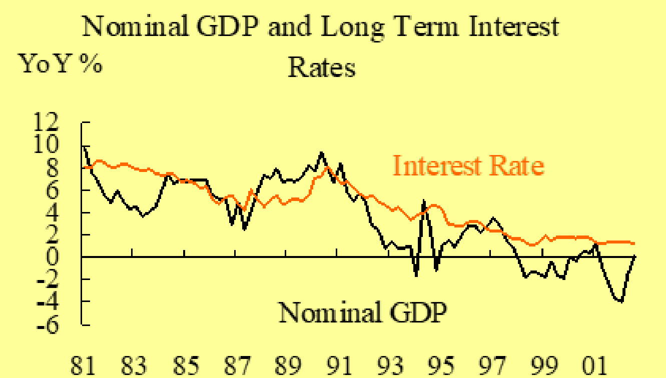
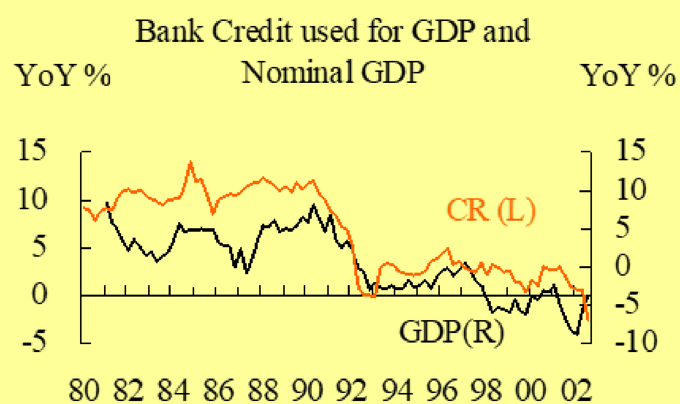
Can we trust the central planners to give them yet more power?

Credit drives stocks, bonds and currencies

- Bonds follow GDP



- GDP follows credit creation



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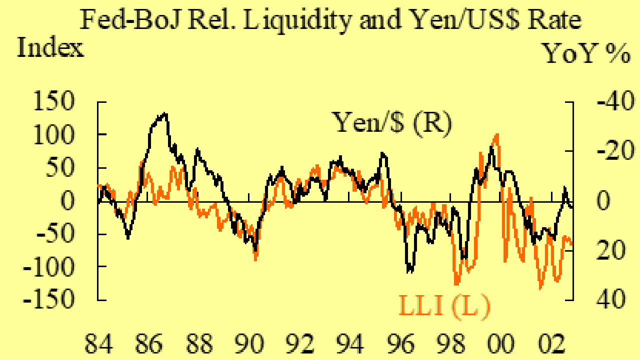
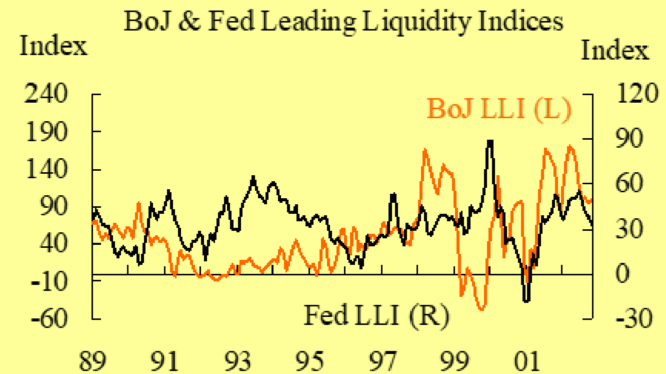
Can we trust the central planners to give them yet more power?

Credit drives currencies

- The yen-dollar rate is explained by…



- ….the difference in Fed and BoJ credit creation



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Can we trust the central planners to give them yet more power?

Some of the deeds of the central banks

- The Bank of Japan created the asset inflation of the 1980s and the deflation and recession of the 1990s.
- The Fed created the asset inflation of the 1990s and the subsequent recession.
- The ECB is currently creating a massive recession in Germany.
- The Asian crisis was created by the central banks of Thailand, Korea and Indonesia.
- Most currency gyrations are due to the central banks.

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Dec 2002

Can we trust the central planners to give them yet more power?

- **Regulatory moral hazard:** Central planners have been rewarded in the past half century or so for failure (crises) by obtaining greater powers.
- Hence what we get is more crises.

Can we trust the central planners to give them yet more power?

Alleged “official” benefits of CBDCs listed by the central banks:

- providing a safe, government-backed alternative to commercial bank deposits – *this discloses the ECB agenda to kill banks*

- 24 May 2023 ... ECB President Christine Lagarde says a digital currency from the central bank will help make Europe independent of outside payment services . ie to fight against the US. Bloomberg: 21 Mar 2023 ... A digital euro has a key role to play in safeguarding European payment autonomy, according to European Central Bank President Christine ...

- this is gaslighting: the EU is a US project that was designed to be anti-democratic and authoritarian. It is run by CIA agents will remain subjugated by the US.

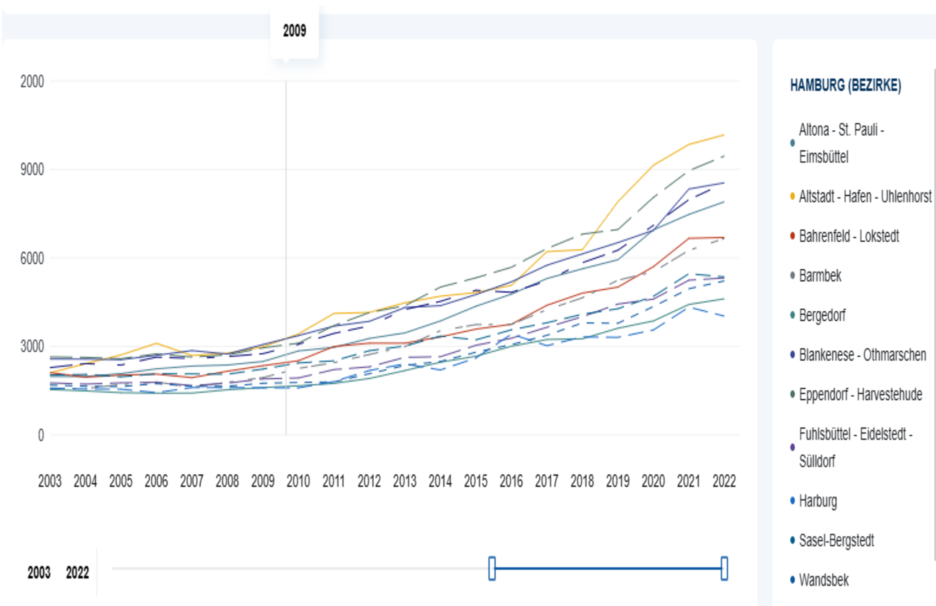
- **enhance financial stability by reducing the risk of bank runs – *this is ironic!***

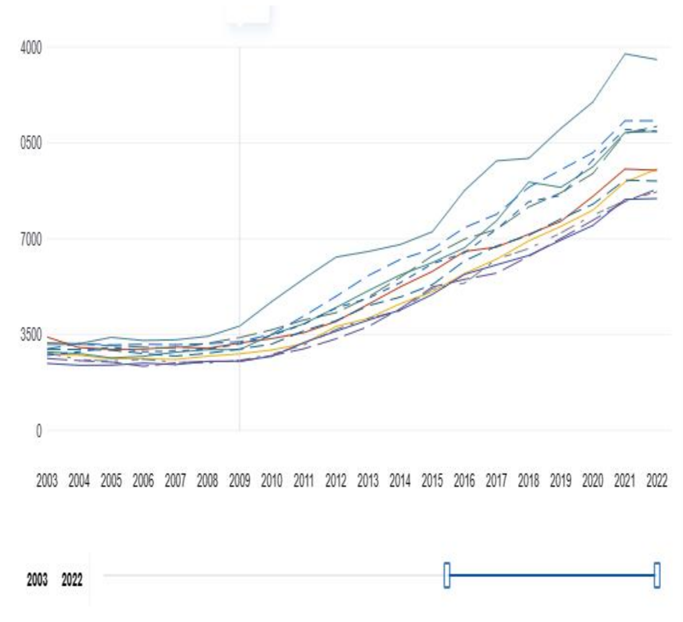
- *True causation is likely to be the other way round: The ECB is causing a banking crisis in Europe (Germany) in the coming 2 years and will use a bank run to establish CBDCs*

Can we trust the central planners to give them yet more power?

The coming banking crisis in Germany, engineered by the ECB

- Since 2008, the ECB, via its supervision & interest rate policy, as well as bank regulations, encouraged German banks to focus on bank credit for real estate purchases. This must create an asset bubble, which began after 2009.

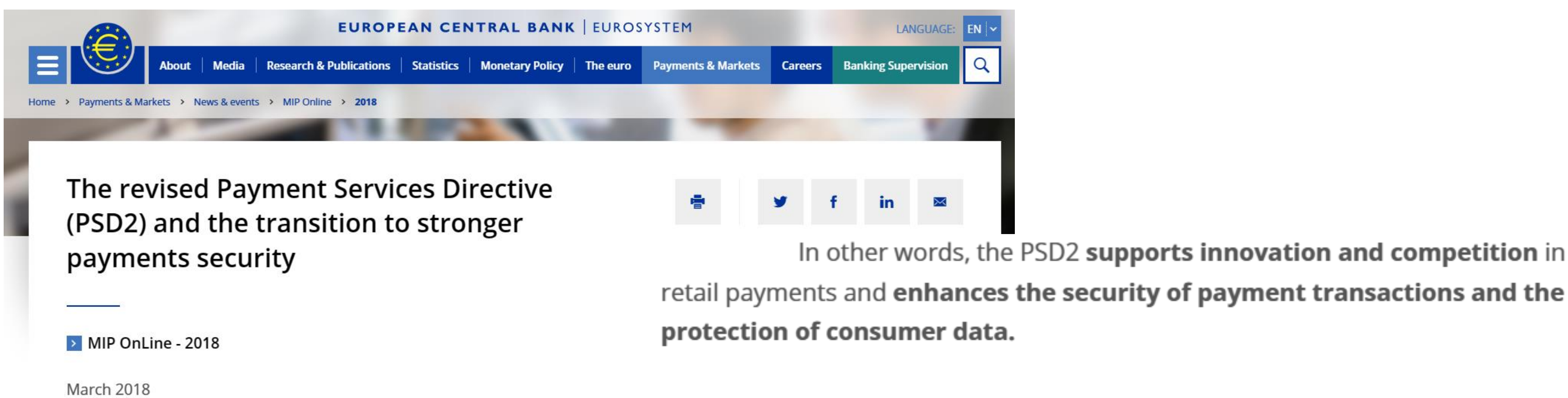




- The ECB burst this bubble in late 2022. It will take the banking system down with it

Anti-bank measures taken by the EU/ECB

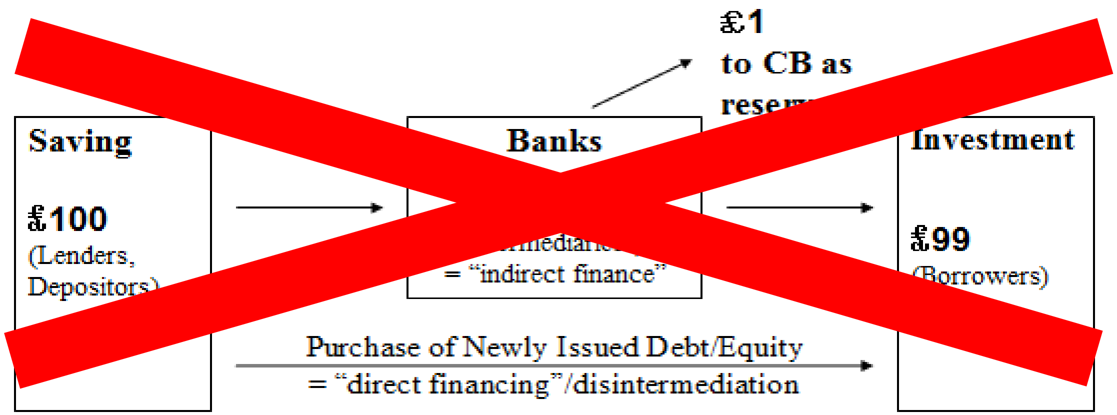
- The overpaid unelected eurocrats in Brussels and their fellow central planners at the ECB have been busy for about two decades to undermine banks and banking
- ECB: 14 years of zero/negative interest rate policies, making small bank activity unprofitable and benefiting big banks engaged in financial speculation
- EU: massive increase in regulatory burden, forcing 5,000 small banks to merge and disappear
- EU & UK: creating a whole new industry of “fintechs” and passing legislation that forces banks to share our private bank transaction data with fintech start-ups to commercialise this information, sell it on and have “products” pushed on us that we do not need



Should we abolish banks? The central planners say “Yes!”

Banks are not just financial intermediaries

Textbook Representation of Banks as Mere Intermediaries



- The financial intermediation and fraction reserve theories of banking are not true
- **Where does money come from? 97% of our money supply is created by banks** when they extend credit (‘lend’)

Werner (2014): Can banks individually create money out of nothing?*

*most downloaded article in all of Elsevier’s thousands of scientific journals

Trade Secret: What makes banks unique

The case of a €100,000 loan

Step 1 The bank 'purchases' the loan contract from the borrower and records this as an asset.

Balance Sheet of Bank A

Assets	Liabilities
€ 100,000	

Step 2 The bank now owes the borrower €100,000, a liability. It records this however as a fictitious customer deposit: the bank pretends the borrower has deposited the money, and nobody can tell the difference.

Assets	Liabilities
€ 100,000	€ 100,000

NB: No money is transferred from elsewhere

So the creditor (the bank) doesn't give up anything when a loan is 'paid out'

Banks are special. They create the money supply

- Unlike non-bank financial institutions, **banks create money**.
- They do this by what is called ‘bank lending’: **credit creation**.
- Bank credit and deposit money are created simultaneously.
- **Banks decide who gets newly created money and for what purpose.**
- **Banks reshape the economic landscape through their loan decisions.**
- Now we know why **central banks** often conduct their true monetary policy by **‘guiding’ bank credit**.

What causes the recurring boom-bust cycles and crises?

The Quantity Theory of Credit = The General Quantity Theory (Werner, 1992, 1997):

Bank credit creation is divided into 2 streams

– credit used for the real economy, causing n. GDP growth, and
– credit used for or financial transactions, determining asset prices

C

Credit used for the 'real economy', determining nominal GDP
('real circulation credit' = C_R)

Credit used for financial (non-GDP) transactions
('financial circulation credit' = C_F)

Quantity Theory of Disaggregated Credit (Werner, 1992, 1997):

Rule: **The allocation of bank credit creation determines what will happen to the economy – good or bad...**

non-GDP credit

= unproductive credit creation

Case 1: *Financial credit*
(= credit for transactions that do not contribute to and are not part of GDP):

Result: **Asset inflation, bubbles and banking crises**

GDP credit

Case 2: *Consumption credit*

Result: **Inflation without growth**

Case 3: Investment credit
(= credit for the creation of new goods and services or productivity gains that generate income)

Result: **Growth without inflation, even at full employment**

= productive credit creation

What has often gone wrong with this process?

Quantity Theory of Disaggregated Credit (Werner, 1992, 1997):
Rule: **The allocation of bank credit creation determines what will happen to the economy – good or bad...**

Bank credit creation

financial (non-GDP) credit

= unproductive credit creation

Case 1: *Financial credit*
(= credit for transactions that do not contribute to and are not part of GDP):

Result: **Asset inflation, bubbles and banking crises**

real economy (GDP) credit

Case 2: *Consumption credit*

Result: **Inflation without growth**

Case 3: Investment credit
(= business credit for the creation of new goods and services or technology implementation/ productivity gains that generate income)

Result: **Growth without inflation, even at full employment**

= productive credit creation

Unsustainable

Sustainable

Bank credit creation determines economic growth

The effect of bank credit allocation depends on the use money is put to

bad good

Case 1: ***Consumption credit***

Result: **Inflation without growth**

Case 2: ***Financial credit***
(= credit for transactions that do not contribute to and are not part of GDP):

Result: **Asset inflation, bubbles and banking crises**

= unproductive credit creation

Investment credit
(= credit for the creation of new goods and services or productivity gains)

Result: **Growth without inflation, even at full employment**

= productive credit creation

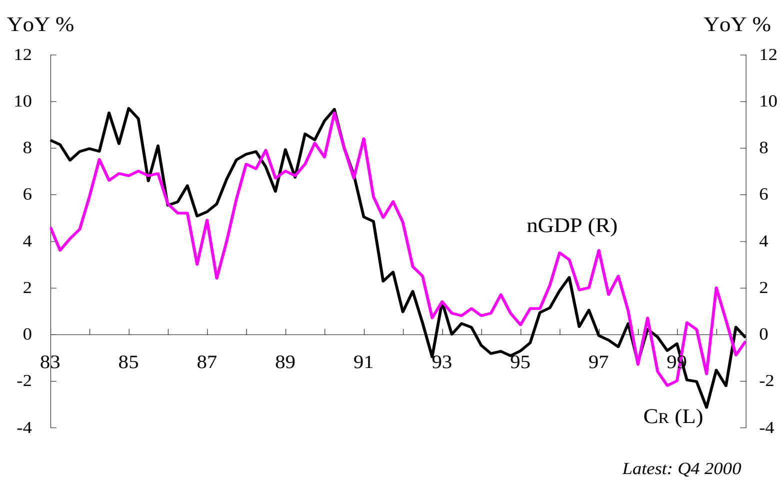
What has often gone wrong with this process?

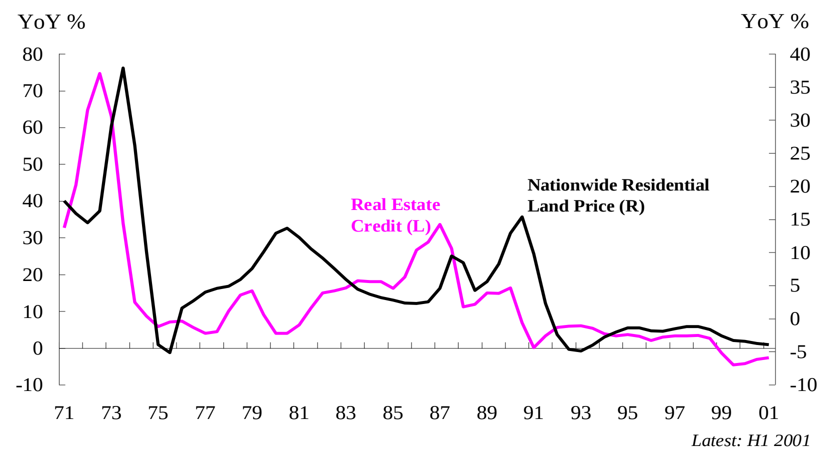
The Quantity Theory of Disaggregated Credit (Werner, 1992, 1997)

$$C = C_R + C_F$$

$\Delta(P_R Y) = V_R \Delta C_R$ | $\Delta(P_F Q_F) = V_F \Delta C_F$

nominal GDP = 'real economy credit creation' | asset markets = financial credit creation





Empirical result of GETS methodology: 'Real economy credit' determines nominal GDP growth

Financial credit determines asset prices – leads to asset cycles and banking crises

The determinant of nominal GDP growth: Bank credit creation for the real economy

- Bank credit for the real economy (C_R) determines nominal GDP growth (PY) (Werner, 1992, 1997, General Quantity Theory, Quantity Theory of Disaggregated Credit)

Kredit und Kapital 2(2), 276-178, 1997

Kredit und Kapital, vol. 30, no. 2, July 1997, Berlin: Duncker & Humblot, pp. 276-309

Towards a New Monetary Paradigm: A Quantity Theorem of Disaggregated Credit, with Evidence from Japan

By Richard A. Werner,* Oxford and Tokyo**

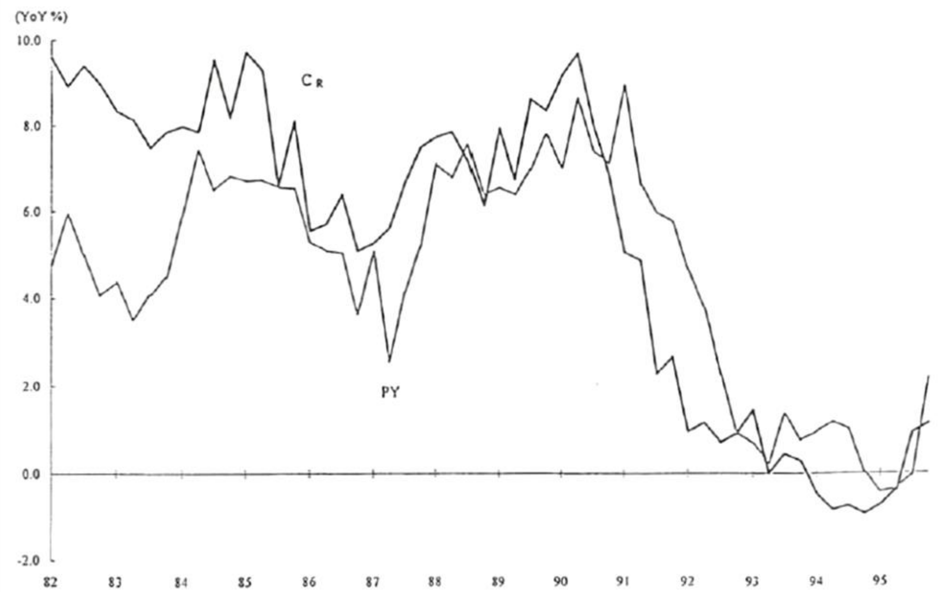
I. Introduction

Thomas *Kuhn*'s (1962) account of the growth of scientific knowledge describes the process of a paradigm shift as follows: the received theory or approach, consisting of a set of assumptions and procedures, becomes unable to explain an increasing number of 'anomalies'. It is initially patched up by *ad hoc* assumptions or adjustments, but as the number of inexplicable facts rises, it is eventually replaced by a new paradigm that explains as much as the previous approach but in addition can also account for the 'anomalies'. Similarly, *Lakatos* (1970), who suggested the concept of scientific research programmes that are based on a hard core of provisionally accepted assumptions, argues that a research programme will be rejected, if another programme can explain everything its rival

* I am grateful for comments by Nicholas Dimsdale, Tim Jenkinson, C. H. Kwan, Stephen Nickell, Yukio Noguchi, Michael Pollitt, Götz Uebe, Naoyuki Yoshino, an anonymous referee and numerous economists in Tokyo. Kimiko Hanabusa and Keiko Sakai provided invaluable research assistance. I am especially indebted to John Baldwin, Tim Jenkinson, Keimei Kaizuka, Stephen Nickell and Hirohiko Okumura for their kind backing. Research support has been gratefully received over a period of two years from the following institutions: The Commission of European Communities, The Japan Foundation, The Economic and Social

can explain, but also those facts the rival could not (see *Backhouse*, 1985, for a discussion of economic methodology).

In the 1980s and early 1990s, three 'anomalies' have occurred in a number of countries which have been difficult to reconcile with the gen-



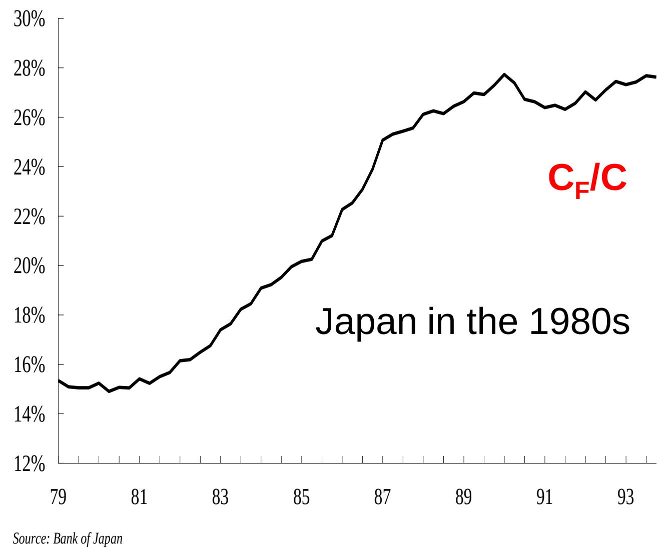
Source: Economic Planning Agency, Bank of Japan

Credit in the 'real circulation' and nominal GDP

and indeed seem to have been most pronounced, the Japanese experience is drawn on for the empirical work. It is found that all three anomalies can be explained empirically by the new approach. The paper ends by

Rule: Credit for financial transactions explains boom/bust cycles and banking crises

- A significant rise in credit creation for non-GDP transactions (financial credit **C_F**) must lead to:
  - asset bubbles and busts
  - banking and economic crises

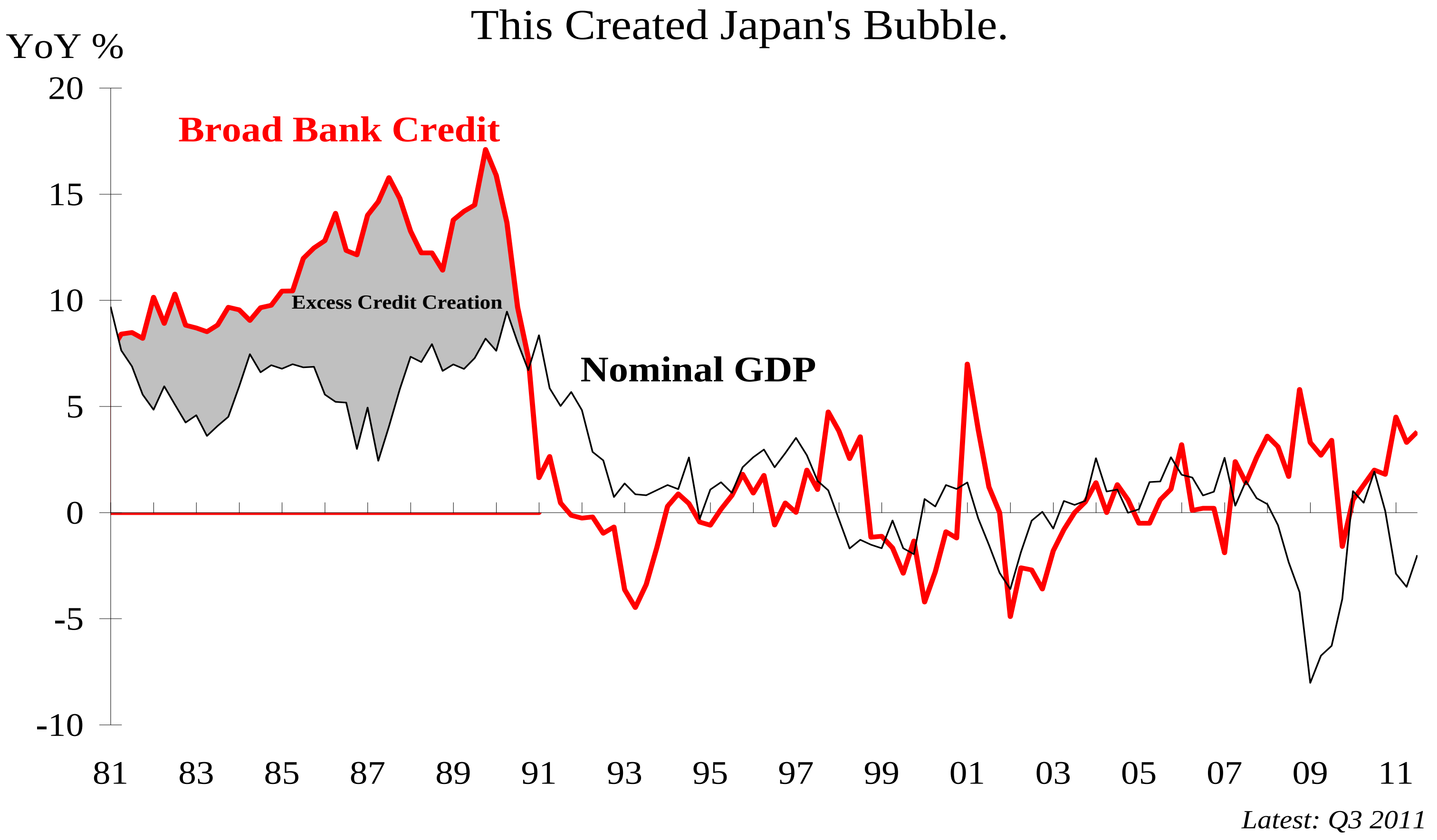


C_F/C = Share of loans to the real estate industry, construction companies and non-bank financial institutions

- **USA in 1920s:** margin loans rose from 23.8% of all loans in 1919 to over 35%
- **Japan in the 1980s:** C_F/C rose from about 15% at the beginning of the 1980s to almost twice this share
- **Thailand, Indonesia, Korea** in 1990s
- **UK banks 2001-10:** credit for the UK real economy accounted for only **22%** of total assets

Rule:

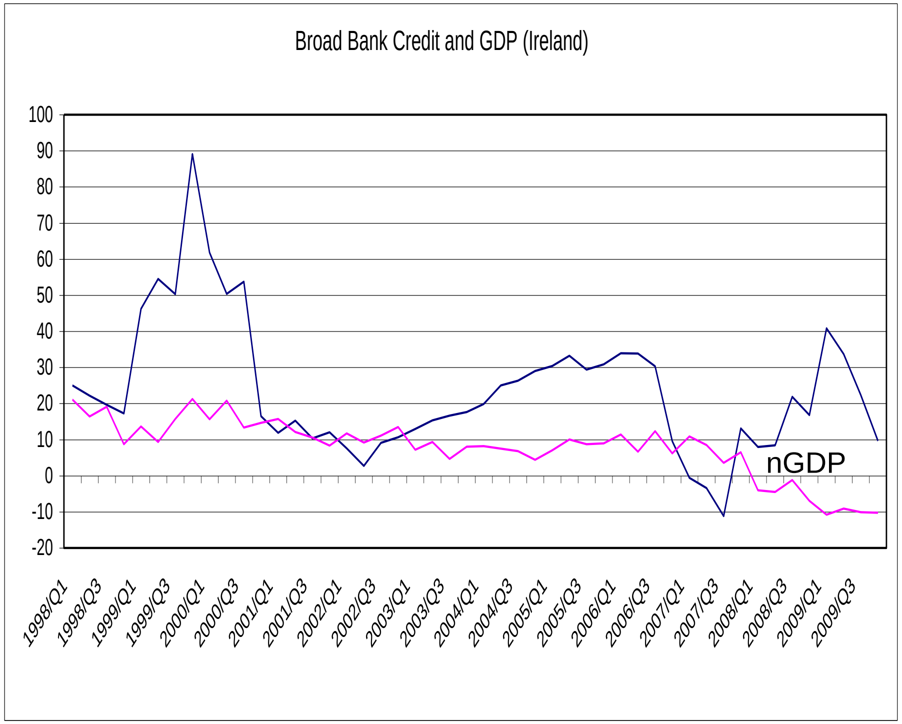
Broad Bank Credit Growth > nGDP Growth = banking crisis

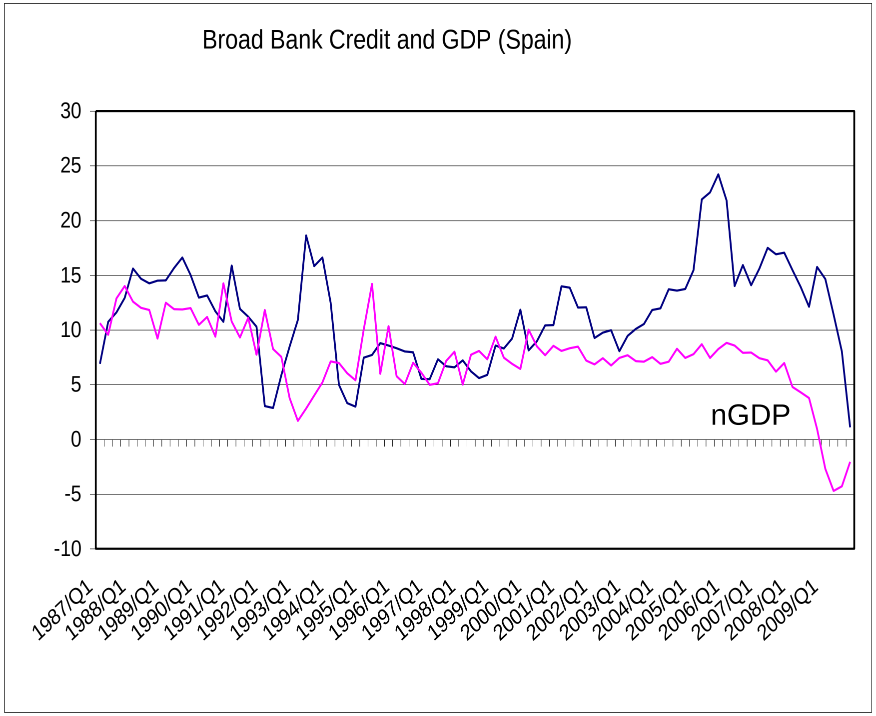


The ECB created crises first in the periphery countries by boosting C_F

Rule:

Out-of-control C_F causes bubbles & crises (e.g. Ireland, Spain)

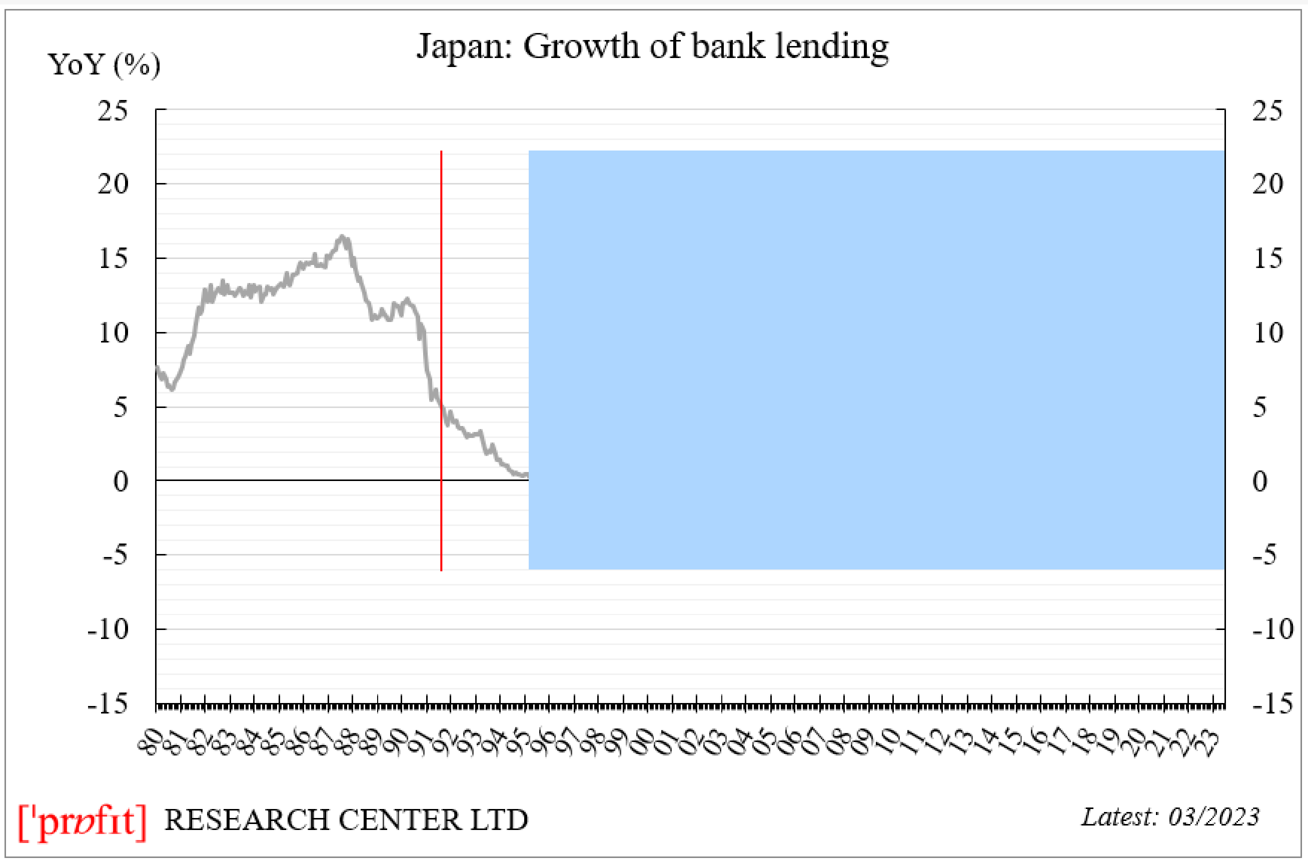




Broad Bank Credit Growth > nGDP Growth

Japan's problem: A lack of bank credit creation

- I warned in late 1991 that the Japanese banking system would be burdened by huge bad debts (25% of assets) from the excessive lending of the 1980s and hence reduce lending in the 1990s and beyond.
- This slump in bank lending would continue until the bad debt problem would be resolved.



Japan’s problem: A lack of bank credit creation

- As bank lending growth slows down to zero or negative, the economy would implode, causing bankruptcies, unemployment, fiscal deficits, further bad debts.
- Thus I proposed a way to get out of this evolving slump in 1994 & 1995.

The problem: A lack of bank credit creation

- To boost bank credit creation again, and hence produce a recovery in nominal GDP growth, I produced a **novel central bank policy** package, which I called "**Quantitative Monetary Easing**", or short "**Quantitative Easing**".

A crash course in types of QE

A. The original QE:

- In a situation of declining bank credit, a shrinking economy and deflation, I proposed 2 types of QE:

Types of QE:

- QE1: Central bank purchases of **non-performing assets** from **banks**
- QE2: Central bank purchases of **performing assets** from **non-banks**

B. The Bank of Japan's 2001–6 QE:

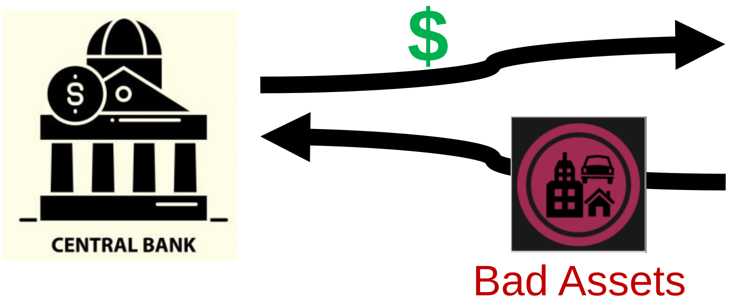
- Sadly, the Bank of Japan claimed it could not do these and instead did:

Types of QE (continued):

- QE3: Central bank purchases of **performing assets** from **banks**

A crash course in QE & its results

QE1: Central bank purchases of **non-performing assets** from **banks**

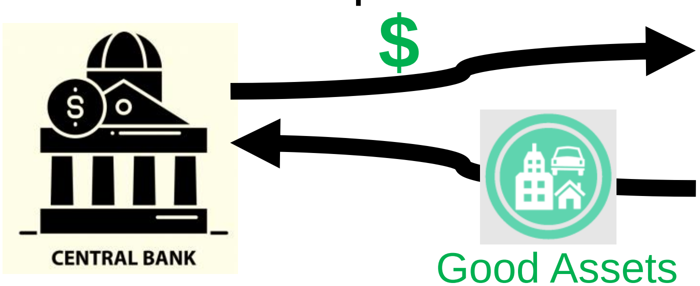


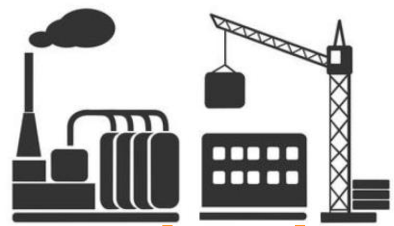
banks

Result:
Cleans bank balance sheets at 0 cost, no money creation

A	L
$ Reserves from central bank	**old D**

QE2: Central bank purchases of **performing assets** from **non-banks**





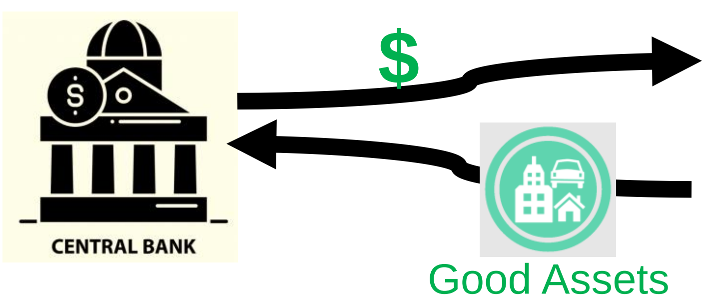
non-banks

Result:
Money creation as banks credit sellers‘ accounts

Banks

A	L
$ Reserves from central bank	new **D**

Fake QE:
‘QE’3: Central bank purchases of **performing assets** from **banks**



banks

Result:
Boosts banks‘ reserve balances, creates profits for banks, boosts asset markets, but no money creation in the real economy

The failed promises of economists

- We were told the inflation of the 1970s was due to events outside everyone's control: A war in the Middle East, resulting in an OPEC oil embargo against the US and other countries in October 1973, producing an energy supply shock, driving up oil prices from US$ 3 in September 1973 to US$ 12 in January 1974.

THE TIMES

Tim Shipman, Chief Political Commentator

Sunday March 13 2022, 12.01am, The Sunday Times

1973 and the oil price shock — Rishi Sunak's inflation lesson

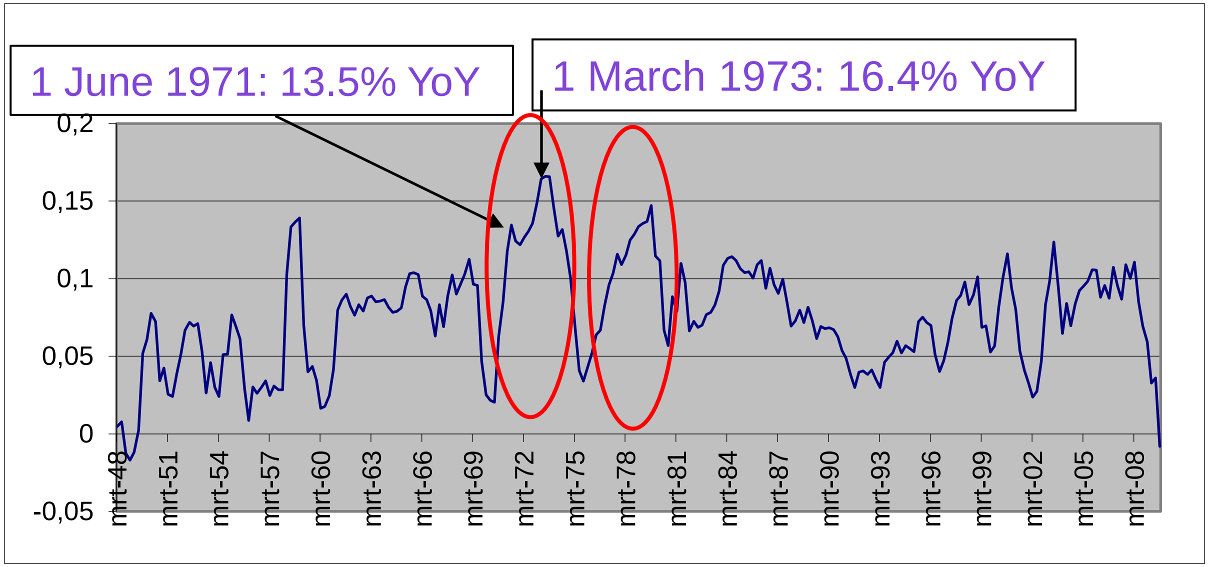
The youthful chancellor is boning up on his Seventies history, but as food, energy and labour costs rocket, he faces no easy options

Sunak attended what one source called a university-style "seminar" from the Treasury's chief economist and another senior official on the 1973 oil price shock, when the Opec nations turned off the oil supply in response to the Yom Kippur war. It unleashed rampant inflation and a worldwide recession.

The 1970s’ Stagflation

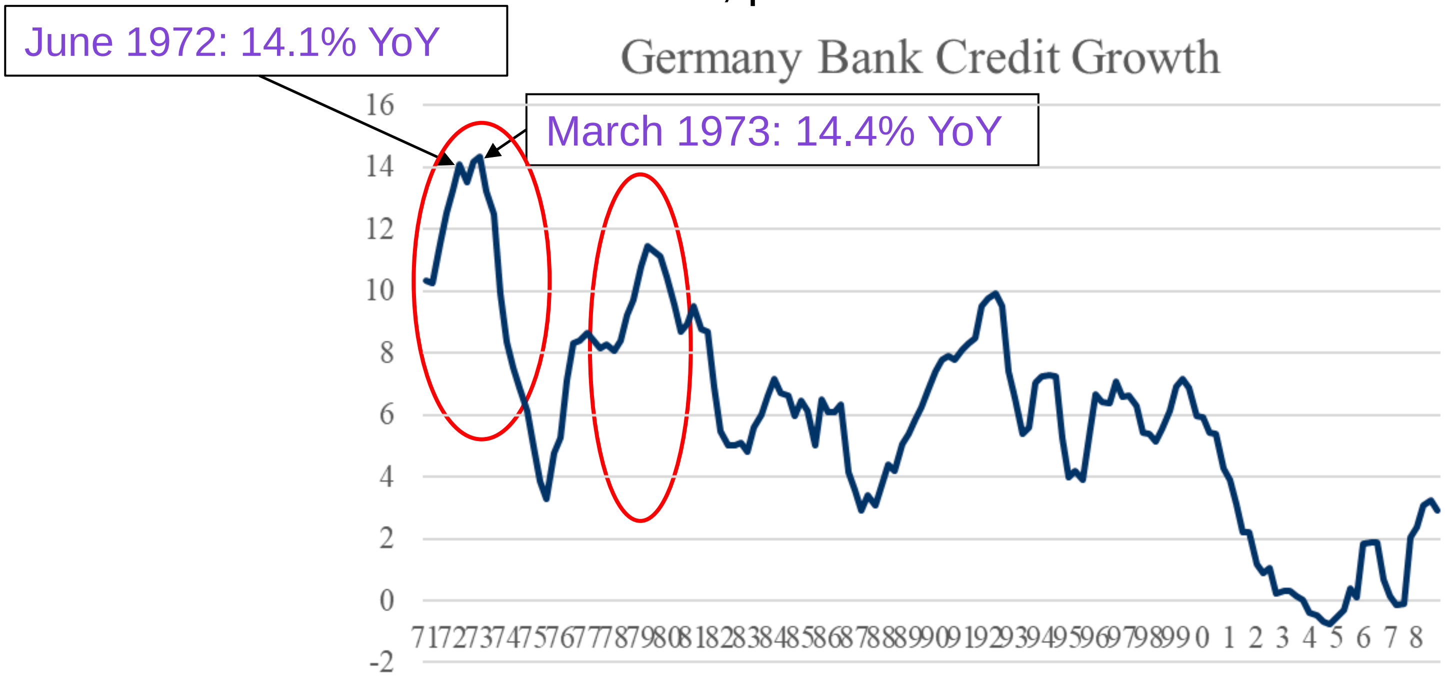
- The Middle Eastern war and OPEC embargo started in mid-October 1973.
- Oil prices only rose (quadrupled) in January 1974. German inflation peaked in 1973!
- But the credit boom started in 1971 and had peaked by mid-1973.

US Bank Credit Growth



The 1970s' Stagflation: Germany

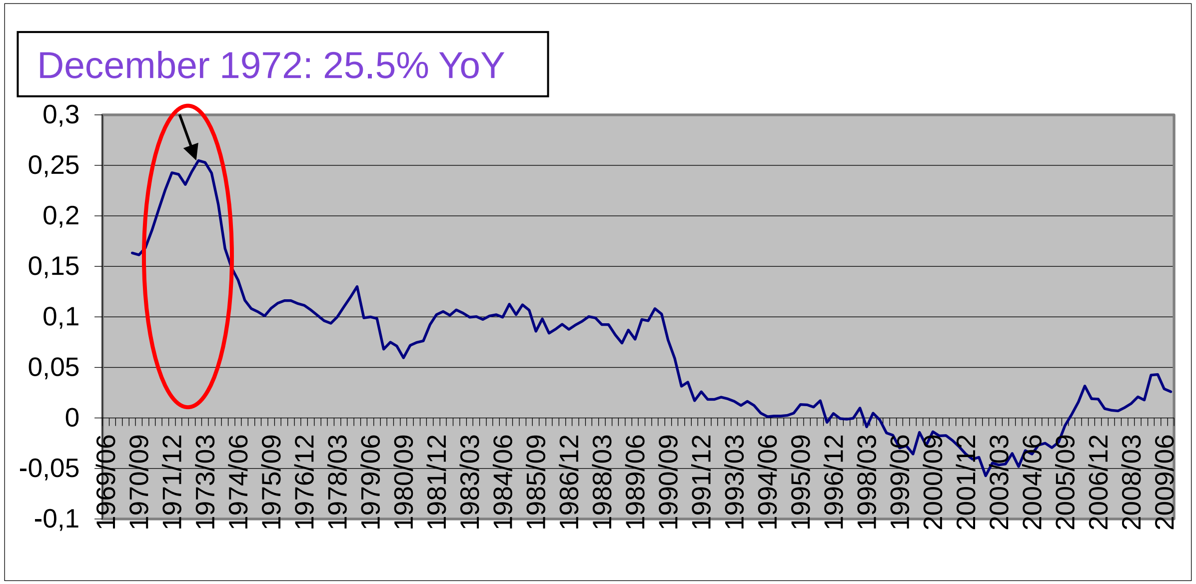
- Inflation was significant in 1972, peaked in 1973
- The "oil price shock" only started in January 1974!
- What preceded the inflation of late 1972/early 1973?
- Highest **bank credit growth** hitherto in the postwar era in 1972
- The credit boom started in 1971, peaked in March 1973.



The 1970s' Stagflation: Japan

- Highest bank credit growth hitherto in the postwar era, peaking in late 1972
- The credit boom started in 1971, peaked in December 1972.
- **Bank credit creation** caused the high inflation of the 1970s, not the war, nor the oil price shock

Japan Bank Credit Growth



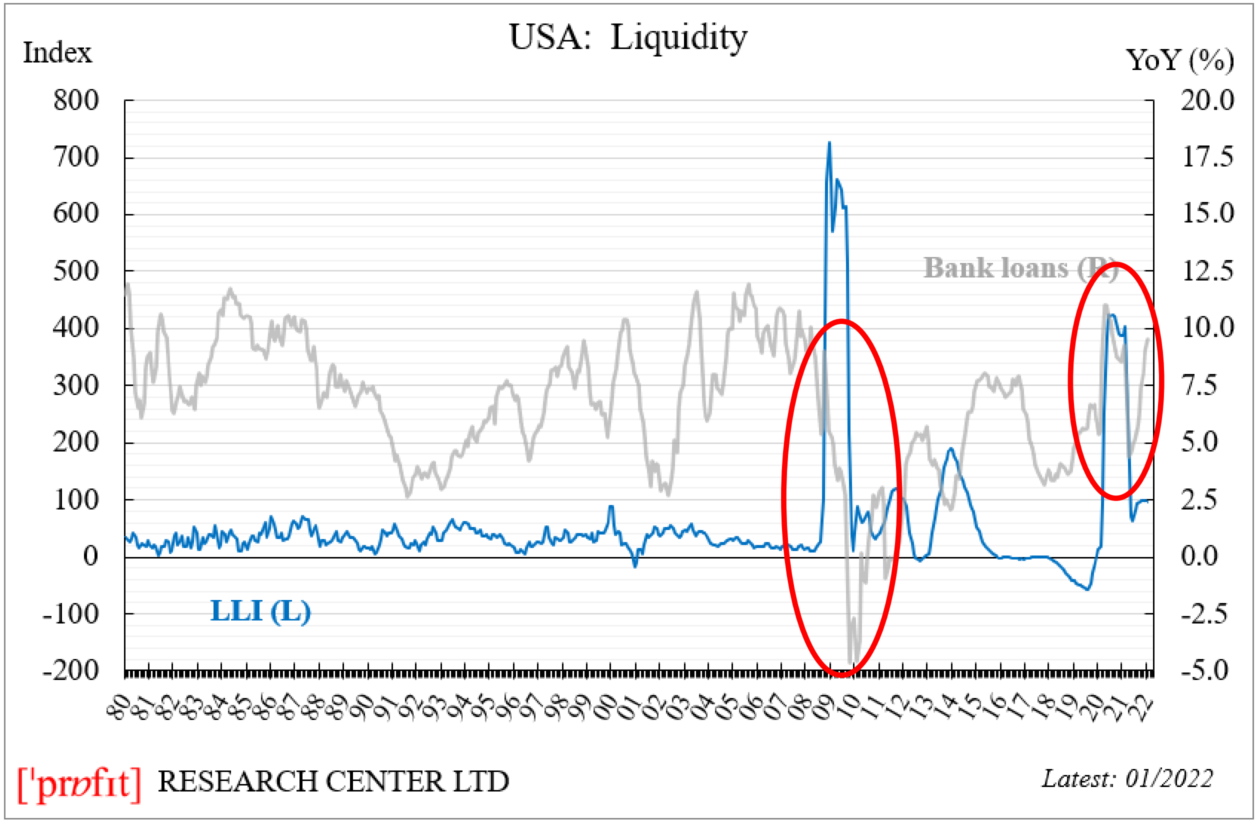
A crash course in the post-war financial system

- Oil prices only quadrupled in January 1974, and even this was not preferred by key OPEC members:
- The Saudis needed to be persuaded by Henry Kissinger to boost the oil price.
- The oil price shock was engineered by the US, in order to support the US dollar and establish the **petro-dollar system**
- Already in 1971 and 1972, the US Fed and “allied” central banks massively expanded credit, which would cause the inflation shock.
- The war and energy embargo served as the cover story to hide the truth
- The same has been happening half a century later, in 2020, as the **petro-dollar system has come to an end**.

The 2022 Inflation was Predictable – Due to Credit Policy

Stagflation caused by monetary policy of 2020

- Why the lack of awareness of the 2020 inflationary CB monetary policies?
- Many observers believe this was a repeat of the 2008 QE policies. It ***wasn't***.



- Inflation is stealth taxation
- Compare Fed policies 2008 vs. 2020

Profit Research Center Ltd., Tokyo werner@profitresearch.com

Post-petro dollar World Financial System

- Why did the Fed take such policies in March 2020? A mistake?
- Jackson Hole, US, **August 2019:** Mark Carney (ex-BoE governor): a **new post-petro dollar world financial system** is needed, which is based on an official Bitcoin-type ('distributed ledger') 'cryptocurrency' issued by central banks, united together forming a global digital **central bank currency (CBDC)**
- Jackson Hole, US, **August 2019: Blackrock Plan** for the "next crisis" recommended for the **central bank to "go direct"** with monetary policy **in order to create inflation: QE2 (CB buys performing assets from non-banks)**
- **March 2020: Fed hires Blackrock, implements its plan = QE2 –>inflation**
- **See Werner, Fortune, March 2023**
- Official plans to abolish cash and banks, centralising all money creation, allocation, transaction settlement as well as monitoring and control in the hands of central banks
- 2020: Covid19 threat used by IMF, World Economic Forum to push for CBDCs and a 'Great Reset'
- June 2023: UN, WHO announce use of EU digital ID ('vaccination passport') and combination with central bank digital currency

Big changes are implemented via crises

Silicon Valley Bank:

- Had ca. 65% of its lending in the form of Treasuries, by far the safest lending in the financial system
- Ca. 25% of lending to tech firms; NPLs low
- Whenever central banks raise interest rates, there are nominal book-value losses in the banking system, such as on their bond holdings (e.g. SVB)
- This is **not a problem**, because banks don’t have to mark their assets to market
- SVB was faced with losses of deposits in the past year (deposits declined by 9%, $17bn), but it took **unusual** steps in response:
- Should have arranged borrowing from Fed. *Didn’t*
- Could have attracted $20bn in deposits by offering a higher interest rate. *Didn’t*
- Could have arranged for various government agency deposits. *Didn’t*
- Could have arranged liquidity from other banks. *Didn’t*
- INSTEAD: It sold $21bn in long-term Treasures at a loss, turning a notional loss of $1.8bn into an actual loss!

The Phoney US regional bank ‘crisis’

- After this “mistake” of realising a huge loss, SVB went to the capital markets to raise new capital of $2.25bn by issuing new stocks
- This attracts maximum attention in the financial markets – critical attention
- Doing this right after booking a $1.8bn loss: asking for disaster. Failure of stock issuance result. “Negative sentiment”
- So, to recap, the bank took a series of unusual steps:
  - It failed to raise rates on deposits, to safely attract deposits again
  - Instead, it liquidated bond holdings at a loss!
  - Then it advertised these “mistakes” by launching new equity issuance, which failed
- **Thursday 9 March:** Peter Thiel led depositor stampede, widely reported, $41bn leaving the bank in one day – a record amount
- No sign of Fed short term liquidity – this is **why the Fed was founded in 1913!**
- Bank was closed by the regulators on the late afternoon of Friday 10 March
- Over the weekend nationalised. ***Then*** **Fed liquidity arrived.**
- Similar stories for Silvergate, Signature Banks.

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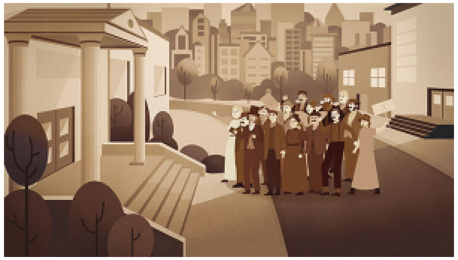
Home > In Plain English - Making Sense of the Federal Reserve

Making Sense of the Federal Reserve

History and Purpose of the Federal Reserve



Before the Federal Reserve was founded, the nation was plagued with financial crises. At times, these crises led to "panics" in which people raced to their banks to withdraw their deposits. The failure of one bank often had a domino effect, in which customers of other banks rushed to withdraw funds from their own banks even if those banks were not in danger of failing. Banks needed a source of emergency reserves to prevent the panics and resulting runs from driving them out of business.

What led to the creation of the Federal Reserve? A particularly severe panic in 1907 resulted in bank runs that wreaked havoc on the fragile banking system and ultimately led Congress in 1913 to write the Federal Reserve Act. The Federal Reserve System was initially created to address these banking panics. It is now charged with several broader responsibilities, including fostering a sound banking system and a healthy economy.

The Phoney US regional bank ‘crisis’

- On 9 March 2023 SVB CEO Becker said in a call with venture clients that their assets are safe and that the stock sale was announced as an attempt to increase financial flexibility, strength and profitability at the bank. The bank has “ample liquidity” to support its clients

  “with one exception: If everybody is telling each other that SVB is in trouble, that will be a challenge.”

- The executive asked VC clients to

  “stay calm. That’s my ask. We’ve been there for 40 years, supporting you, supporting the portfolio companies, supporting venture capitalists.”

- The stampede of deposits on 9/10 March was only technically possible due to SVB having previously signed up to **pilot the FedNow interbank settlement system**: SVB could not stop the outflows.
- Another bank signing up for **FedNow** was **First Republic Bank**. Short-sellers attacked its stock and made a fortune when the FDIC moved to close it and sold it, **with Fed guarantees against losses, to JP Morgan**.

The Phoney US regional bank ‘crisis’

- Other **pilot members of the FedNow interbank settlement system**:
- **First Republic Bank** (taken over 1 May 2023 by JP Morgan)
- Short sellers may wish to consult the list of banks signed up to the **FedNow pilot**

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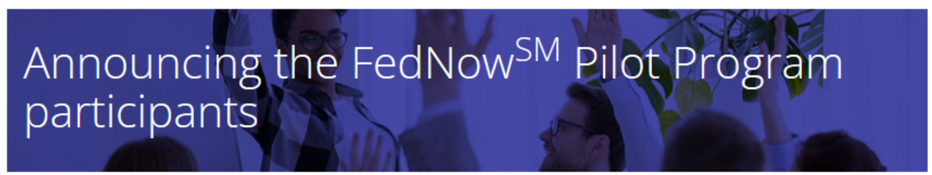


On January 25, 2021, the Federal Reserve announced that more than 110 organizations from the FedNow Community will participate in the FedNow Pilot Program. The program will support development, testing and adoption of the FedNow Service, as well as encourage development of services and use cases that leverage FedNow functionality.

“We’re gratified by the industry’s tremendous interest and willingness to devote time and energy to help us develop the FedNow Service,” said Esther George, president and CEO of the Federal Reserve Bank of Kansas City and executive sponsor of the Federal Reserve’s payments improvement initiatives. “As a result, we’ve adjusted to accommodate more participants than we originally planned.”

Through their involvement in the FedNow Pilot Program, participating financial institutions and processors will help shape the product's features and functions, provide input into the overall user experience, ensure readiness for testing and be the first to experience the FedNow Service before its general availability. In the initial advisory phase, participant input will help to further define the service and adoption roadmap, industry readiness approaches and overall instant payments strategy.

What are the implications of CBDCs?

Many central banks have proposed the introduction of central bank digital currencies (CBDC)

- We have been using **bank digital currency** for many decades. BDC is effective and works well. Why do we need CBDC? There is no good reason, except **control**.
- **CBDCs are current accounts offered by the central bank to the retail public**.
- Should the **bank reglator** step into the arena and **directly compete** against the regulated?
- The regulated (banks) cannot compete against the regulator. Is this fair competition?
- The result will be that **the banking sector becomes more concentrated**, and ultimately we end up with the **Soviet System of 1 bank (monobank; Gosbank)**
- In addition it is not wise to concentrate the unparralled **surveyance and control powers of CBDCs**, linked to digital IDs, in one institution.
- CBDCs would eliminate banks, usher in a **Soviet-style monobank system** and **end economic growth**

Post-petro dollar World Financial System

- In the past big changes were implemented by causing crises
- Wars and embargoes were used to cover up the true causes
- Next phase is to move against **small banks in Europe and the US**, to centralise the largest banking systems into fewer bigger banks
- Then it just takes one more crisis of the big banks…
- Then … CBDCs and total control.

Last Chance Saloon

- The overarching trend of the 20th century was the concentration of power into the hands of fewer and fewer people
- *Power corrupts. Absolute power corrupts absolutely.* Lord Acton
- We must stand up now to **stop the introduction of CBDCs**, even if there are many assurances that they will not be programmed or interventionist
- Already, Europe is being de-industrialised and economically destroyed
- It is the same central planners that have delivered disaster after disaster who now ask for yet more powers.

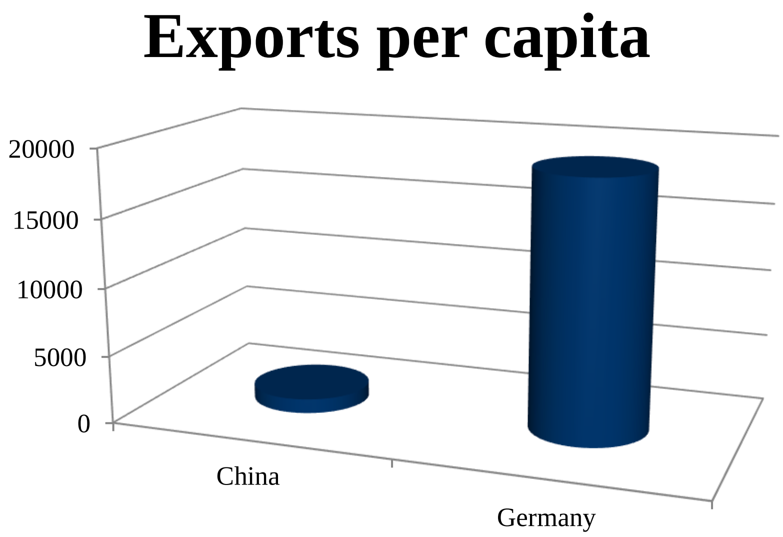
The Solution:
Decentralise and Break up the Concentrated Power

- However a **decentralised** monetary system delivers far better results: The future is in **local, decentralised banking systems consisting of many small banks**
- Banking is about the power to decide over the creation and allocation of resources. Should this really be further centralised?
- **Successful thanks to hundreds/thousands of small banks: Japan, Korea, Taiwan, China, as well as Germany and the USA**
- CBDCs give absolute power over all others to a very small number of people.
- Lord Acton: "It is easier to find people fit to **govern themselves** than people fit to govern others."

  "Power corrupts. Absolute power corrupts absolutely."
  - The Saxons thrived in Transylvania, when they had local autonomy, granted by King Mathias Corvinus
  - When this autonomy was taken away, their prosperity diminished

How is this possible?

- While big German brands are well-known, there are thousands of highly successful small German firms – mostly family-owned businesses – that are **world market leaders** in many industries
- They have been contributing significantly to the German export success and have produced a stable, decentralised economy with a lot of job creation



Secret of Success: The Hidden Champions

- Define “**Market Champion**” = a company that has no. 1, 2 or 3 market share in the world in its industry
- Define “**Hidden Champion**” = a small or medium-sized enterprise (SME) that is a market champion
- Why SMEs?

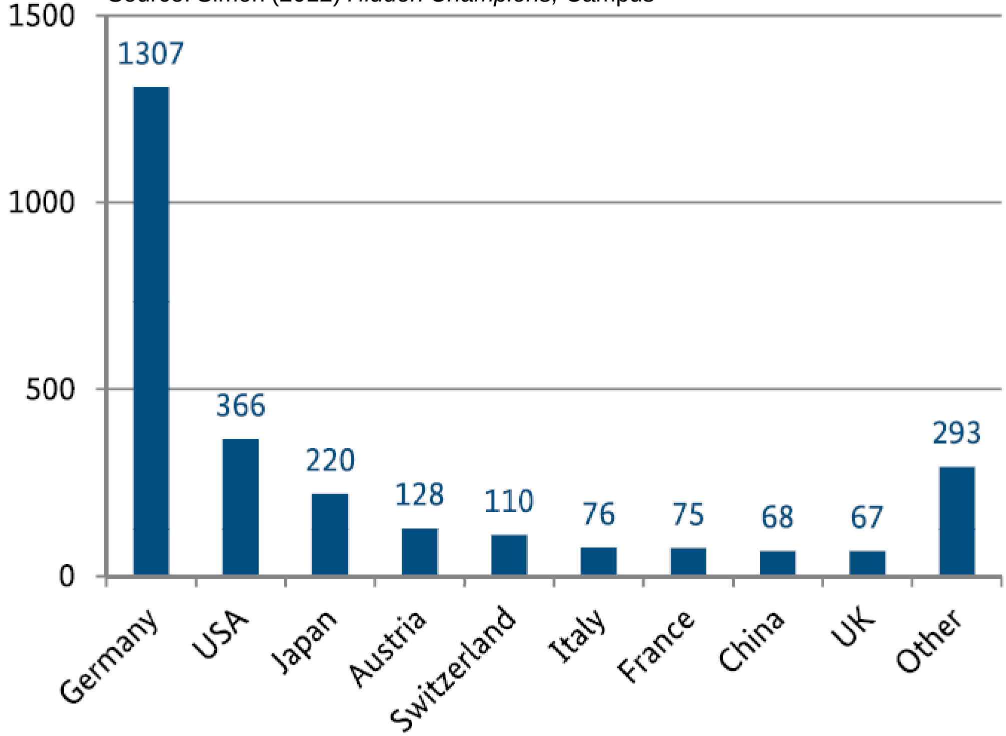
- **They** account for **two thirds of employment in most economies**. They are **the biggest employer**.
- Small firms are a **job multiplier:** Money invested in small firms creates **many more jobs** than the same amount invested in a large firm

- **Which country has most Hidden Champions in the world – by far?**

The secret of 200 years of strong German performance

Number of ‘**Hidden Champions**’

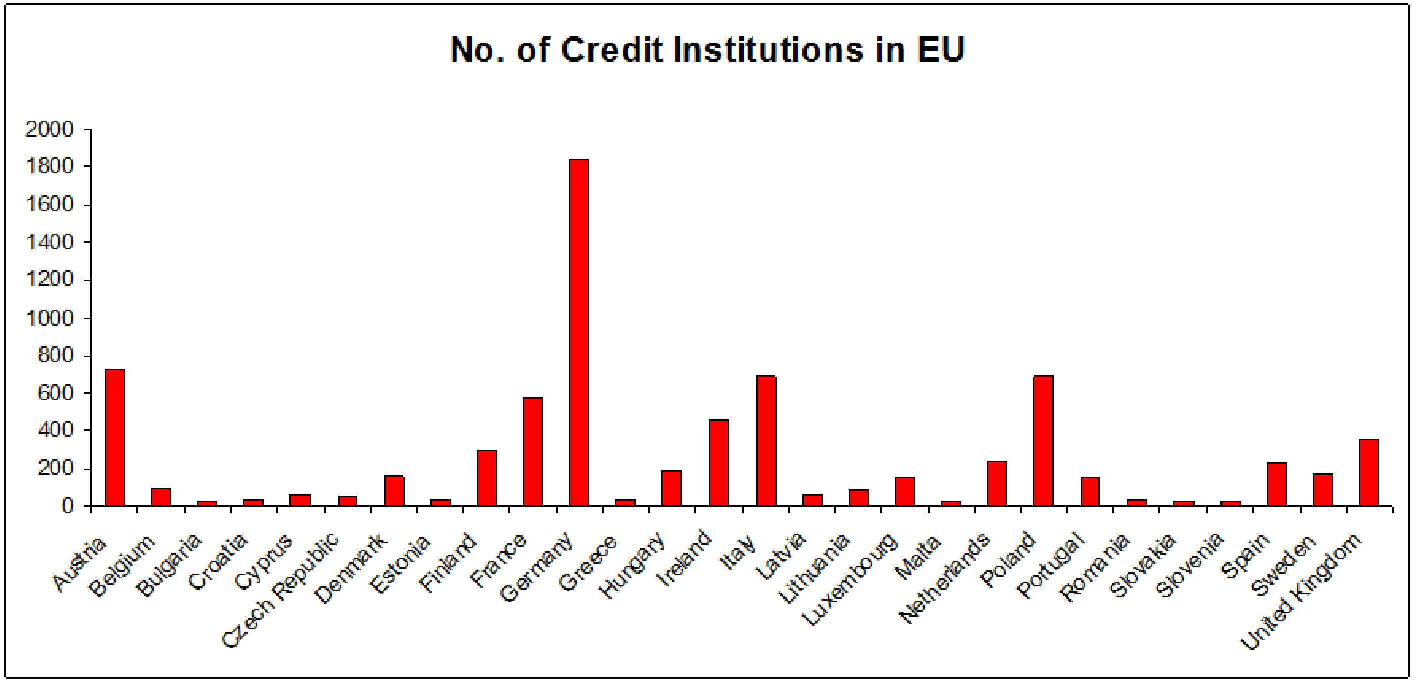
Source: Simon (2012) *Hidden Champions,* Campus



- Independent study by consultants: “No other country in the world has so many “**Hidden Champions**” as Germany: 1,300 small firms are **global market leaders** in their respective markets

- This is unique in the world. **How is this possible?**

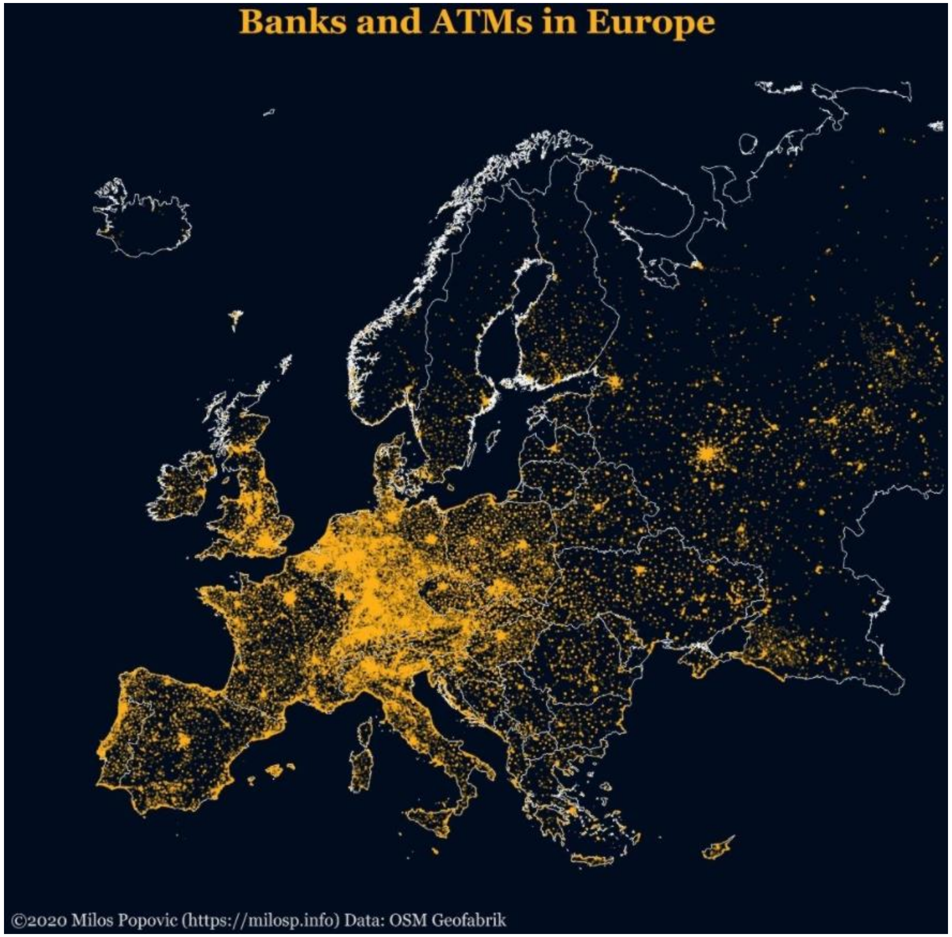
Which European economy has the largest number of banks?



Source: ECB, Monetary and Financial Statistics, Lists of Financial Institutions, May 2014

Germany has more than ten times as many banks engaged in SME lending than the UK.

Quiz: Spot the strongest economy in Europe



A: Germany is world champion in **community banking**

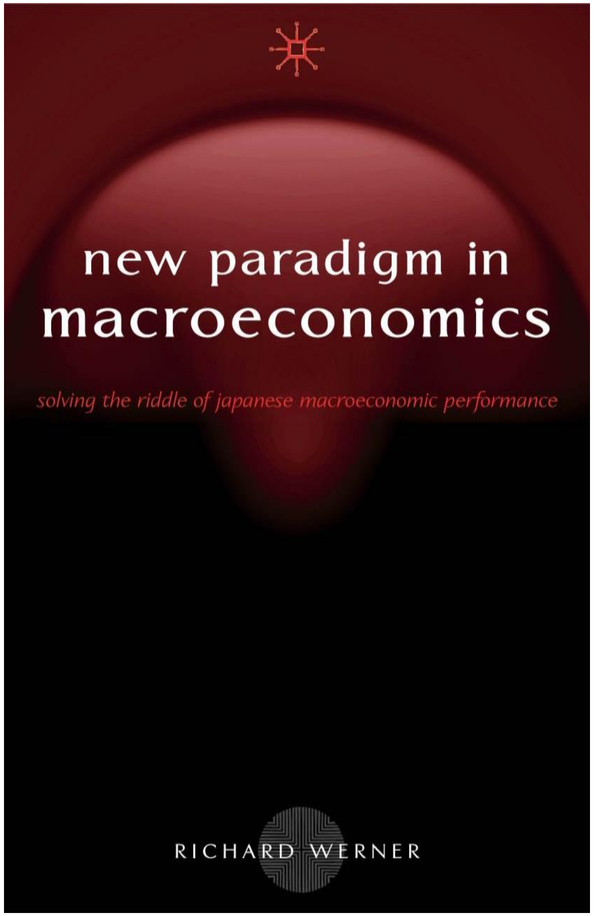
- Germany has the largest number of **small, local community banks** in the world (1,500)
- 70% of bank deposits are with community banks,
  80% of all banks are not-for-profit local community banks, and
  over 90% of SME lending is from such local banks
- German community banks were **not affected by the 2008 crisis**
- Community banks **increased SME lending when the 2008 crisis hit** – so there was **no recession and no increase in unemployment**

- **Japan, Korea, Taiwan have many banks**
- **China switched from Soviet monobanking to thousands of banks before growth took off**
- **It is now a strategic moment to invest in small banks in Europe and in setting up new banks**

Alternative to Central Bank Guidance of Credit: Thousands of Community Banks

What structure of the banking sector has achieved financial stability & high, non-inflationary equitable growth?

- A banking system dominated by small, local banks
- This is the **most decentralised form of public money creation and allocation**
- This should **not be abolished,** but expanded



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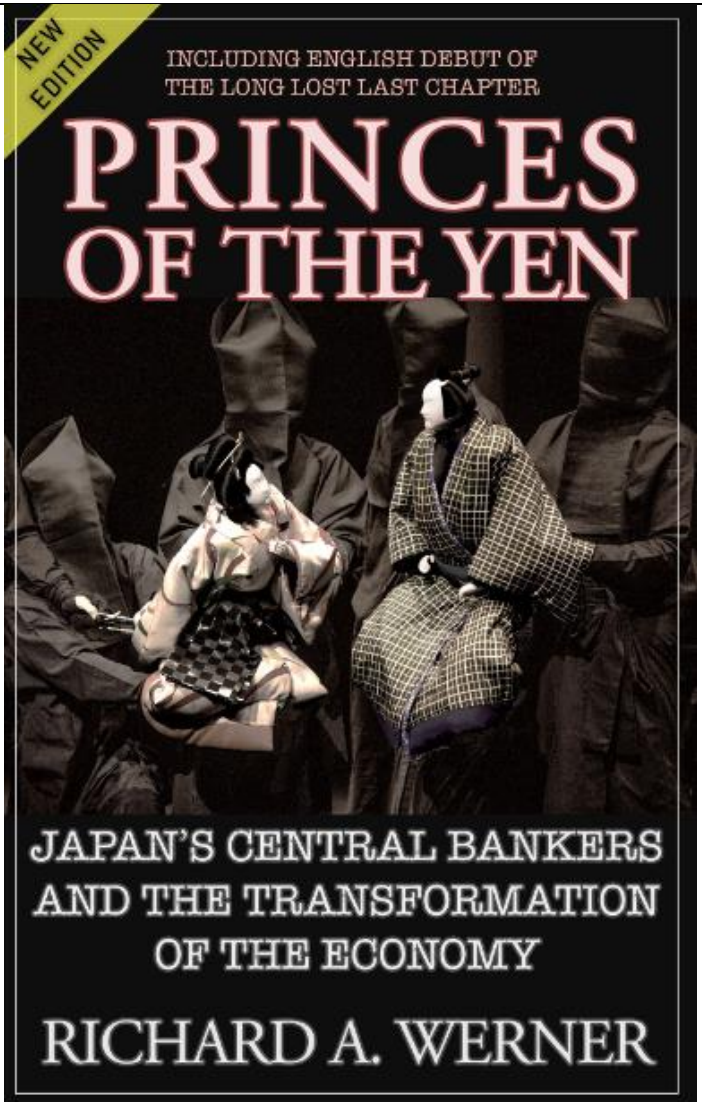

Princes of the Yen the Movie is Out

Youtube:

Princes of the Yen *film*

QuantumPublishers.com, 2018